



Be Optimistic, But Not Too Optimistic

Presented to:
Maricopa County Board of Supervisors
August 16th, 2010

By:
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CEO, Elliott D. Pollack & Company



I SURVIVED!!!





***2012 & 2013
will be a
whole lot
better than
2010 & 2011!***



Maricopa County



Good News:
Retail sales will be up

Bad News:
***Property values will
be down***



Main Themes - Nationally



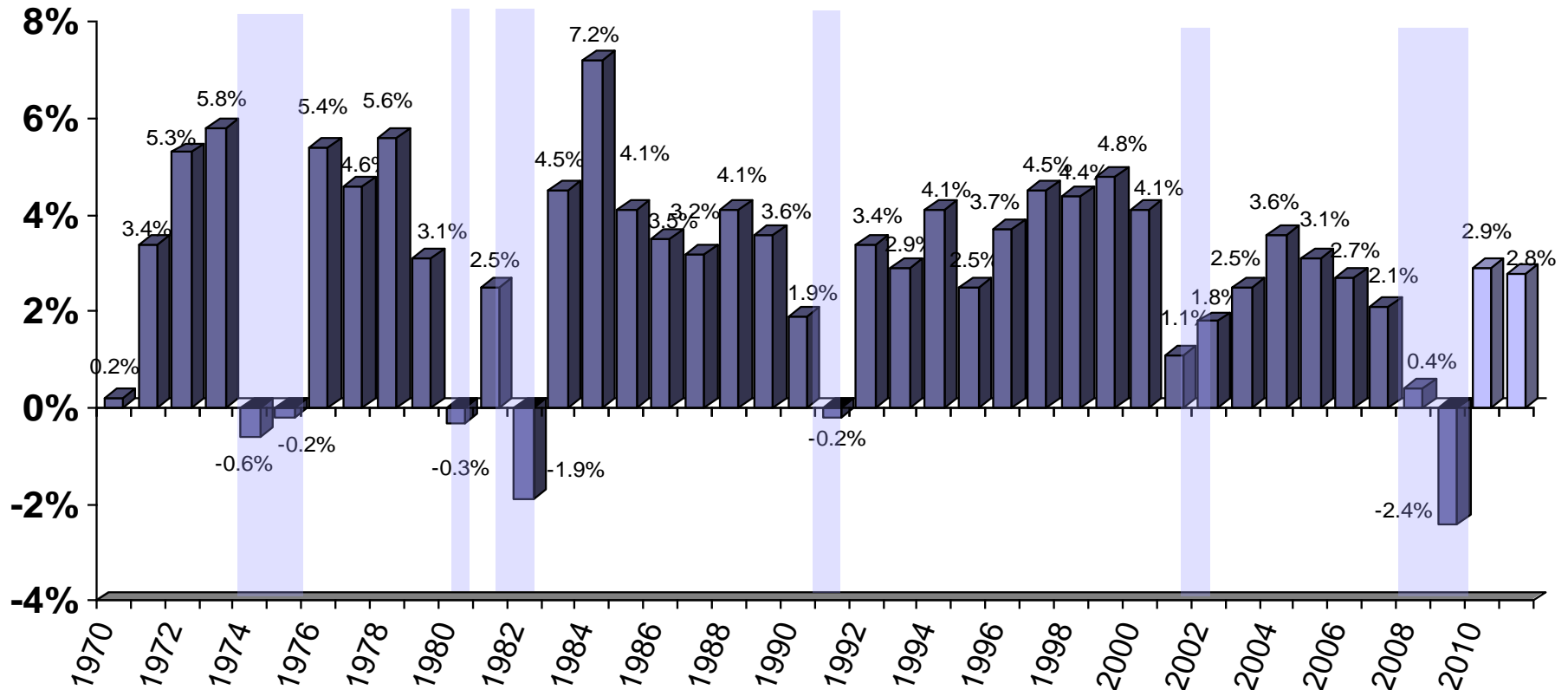
- Things are getting better.
- Consider the glass $\frac{1}{2}$ full.
- We have moved away from the abyss.
- Recession is over.
- Unemployment rate will stay high.



United States Real Gross Domestic Product*

Annual Growth 1970 - 2011**

Source: U.S. Bureau of Economic Analysis & *Blue Chip Economic Indicators*



* Based on chained 2005 dollars.

** 2010 - 2011 are forecasts from the Blue Chip Economic Indicators, August 2010

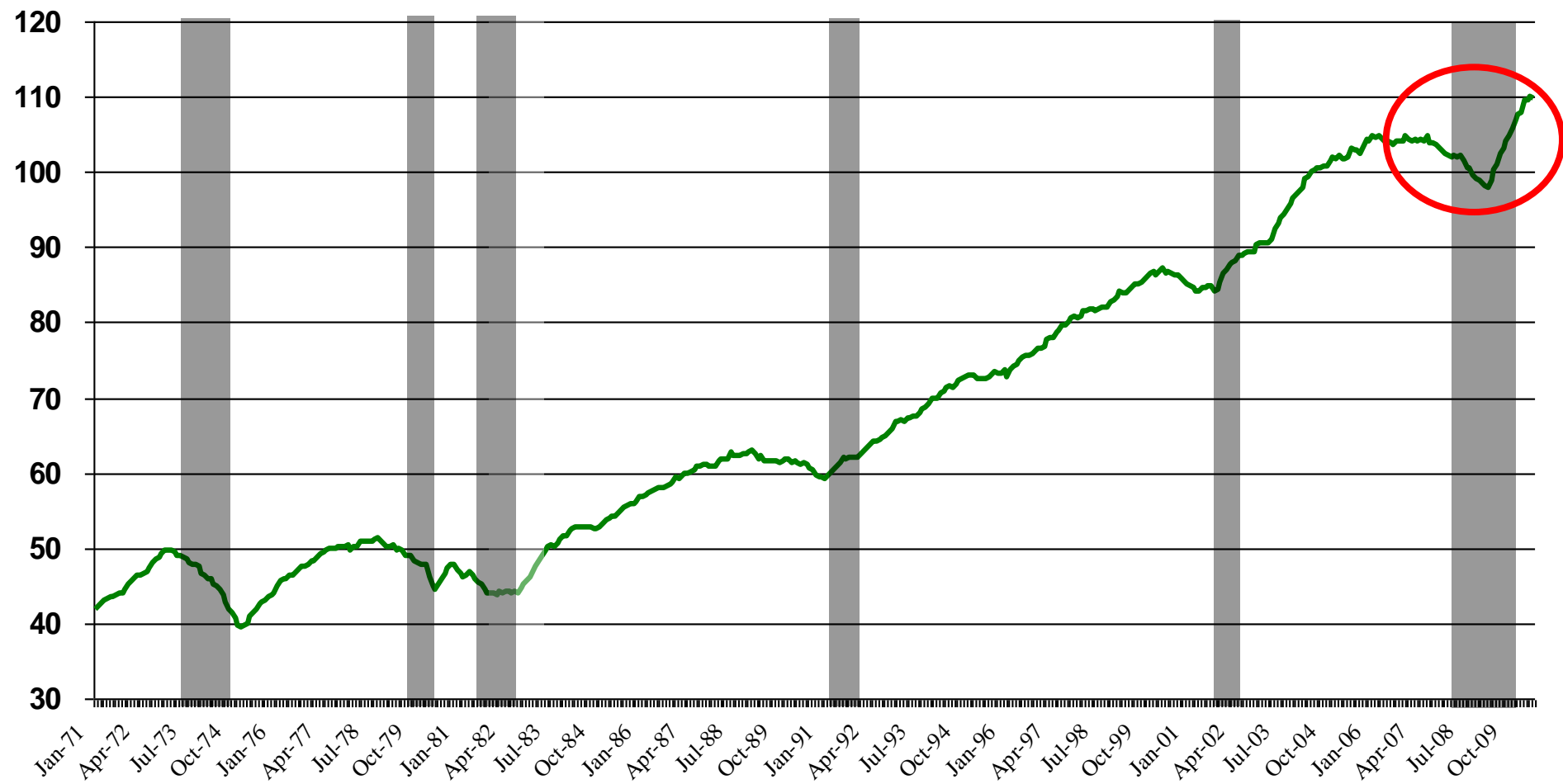
Recession Periods



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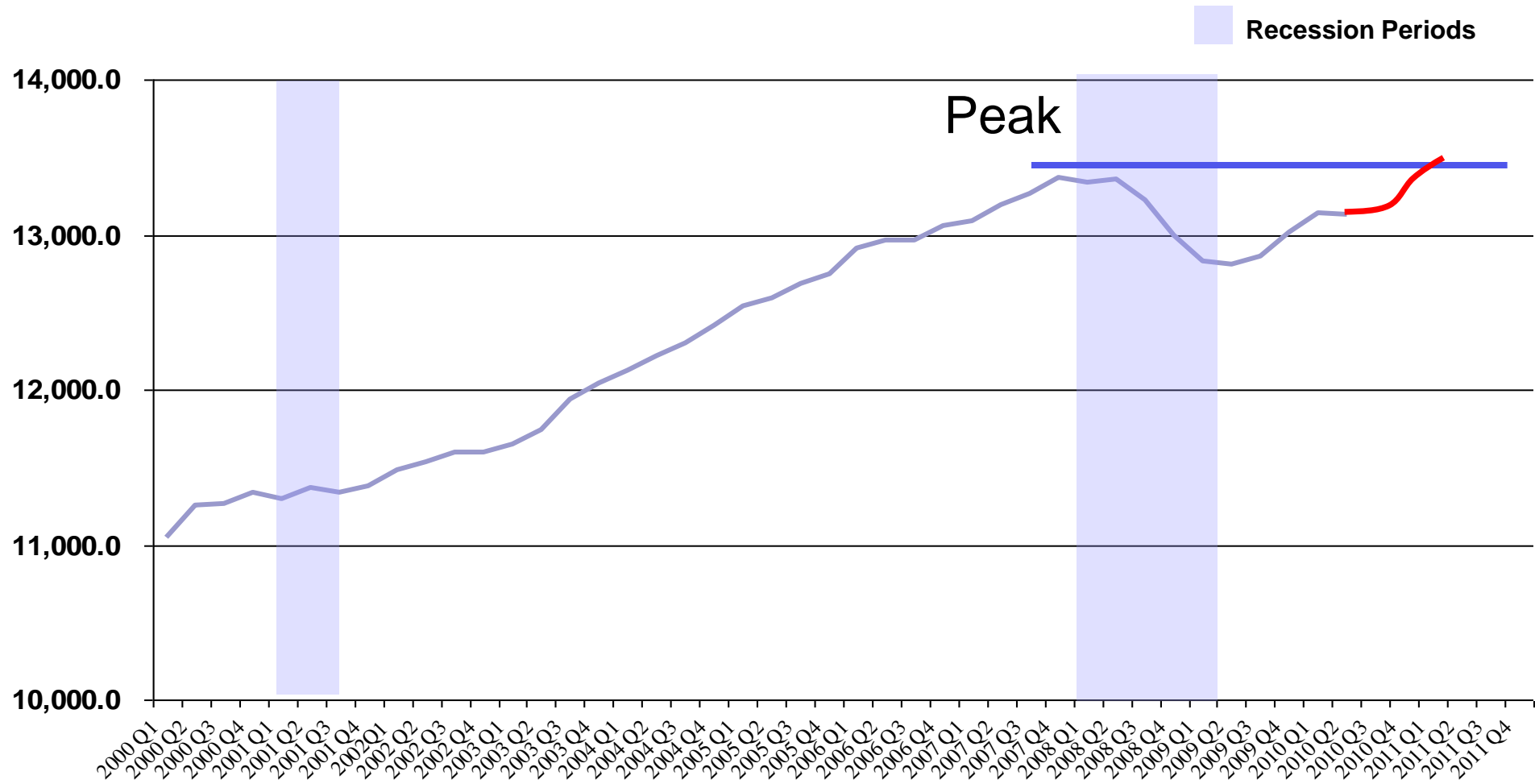
U.S. Leading Indicators 1971 – 2010 (through June)

Source: The Conference Board



GDP: Back to Peak in 2011?

Source: BEA



What *usually* drives a recovery?

- Inventory swing - occurred
- Retail sales - slow
- Housing – yet to occur



Consumer

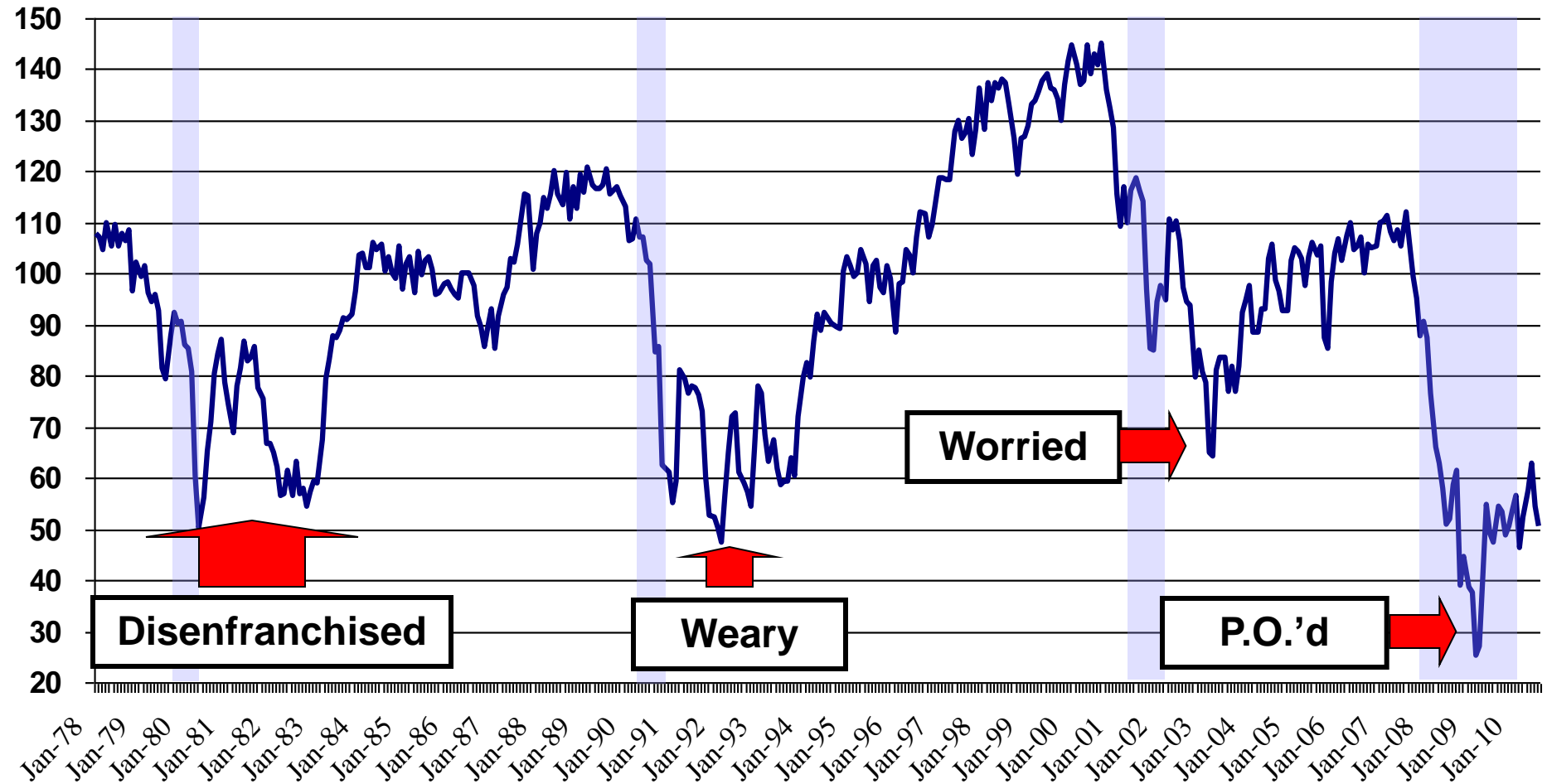


Consumer Confidence

1978 – 2010*

Source: The Dismal Scientist

Recession Periods



*Data through July 2010



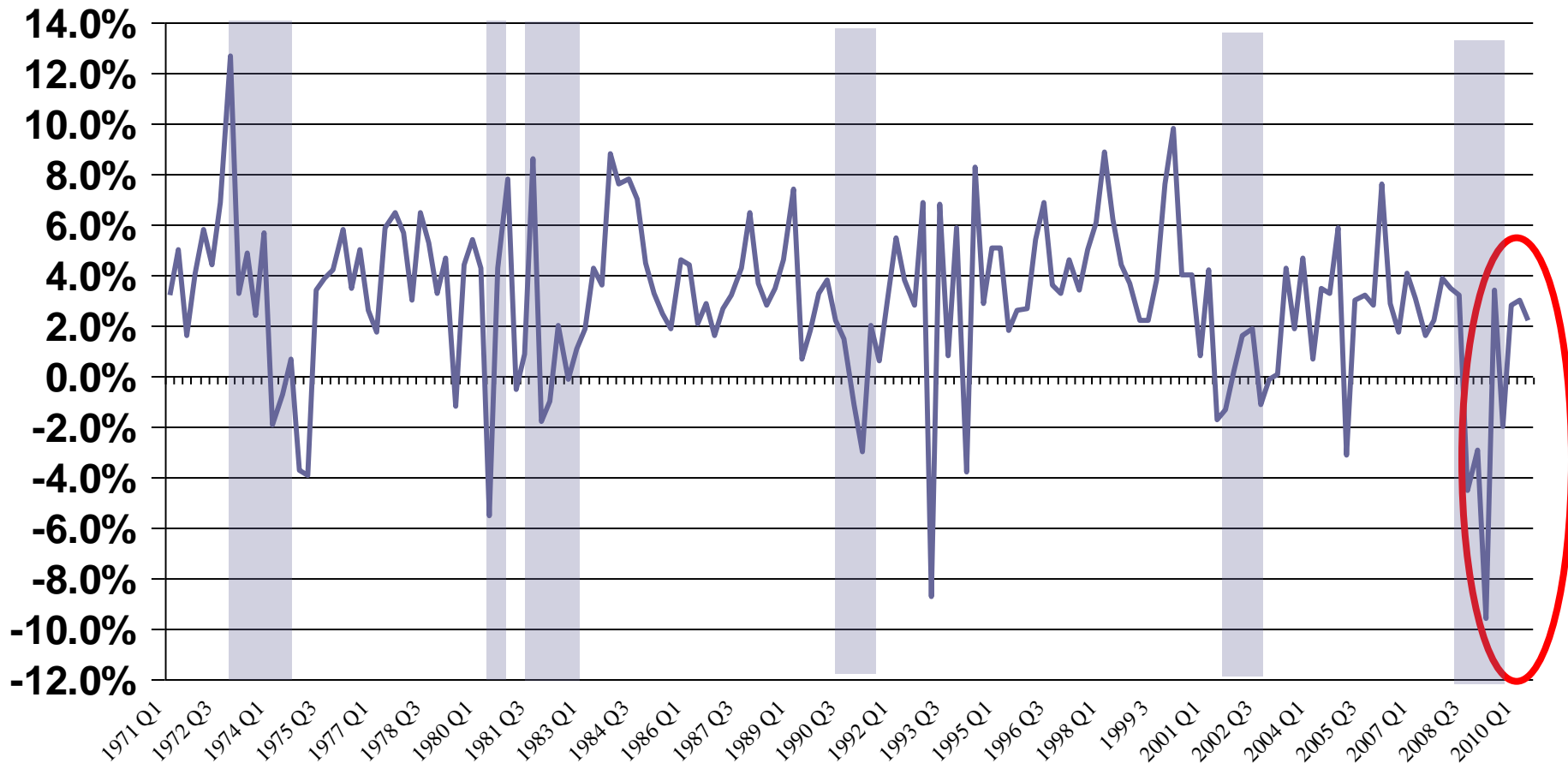
Real Personal Income

Percent Change Quarter Ago, Annualized

1971 – 2010*

Source: Bureau of Economic Analysis

Recession Periods

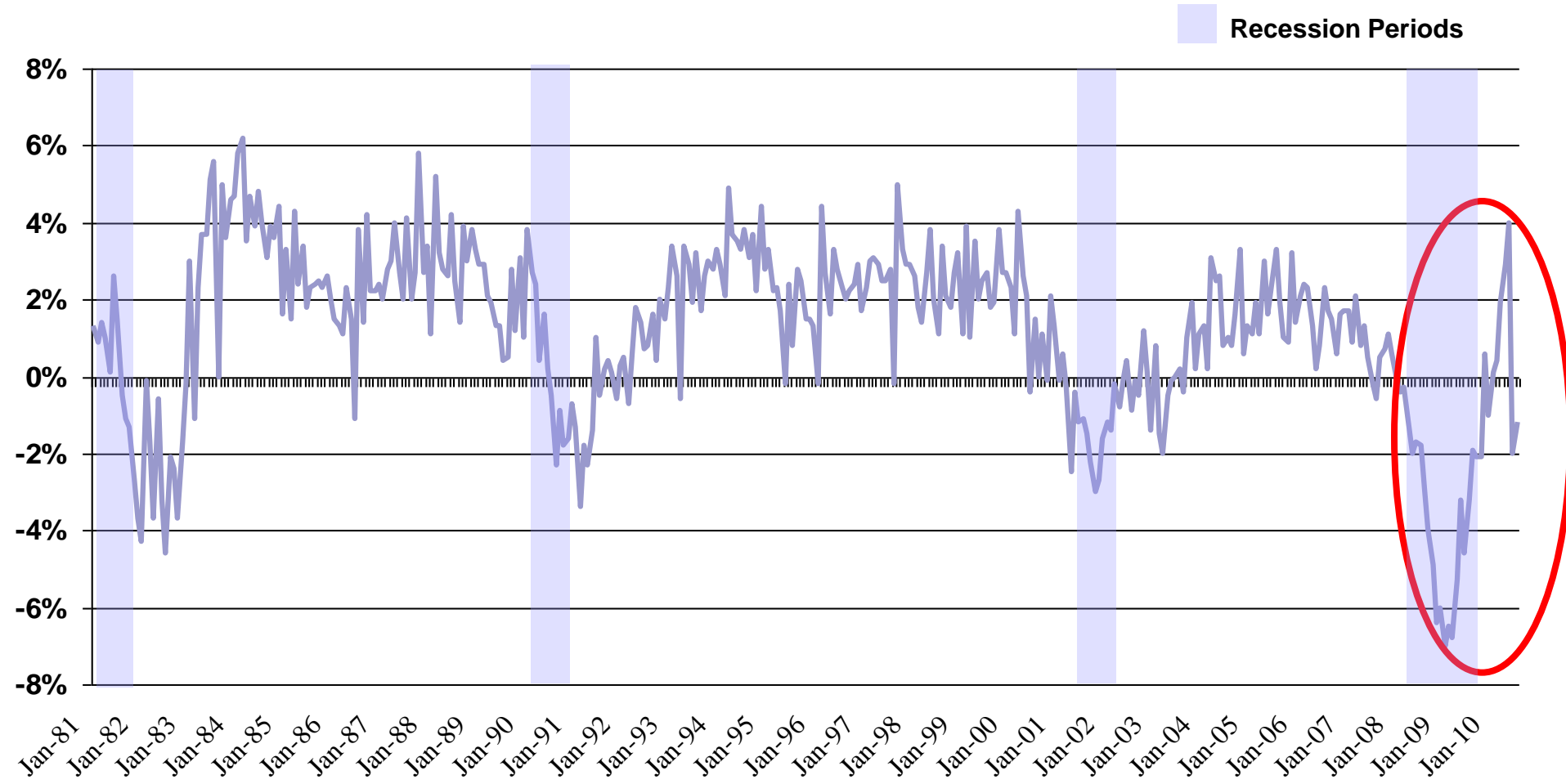


* Data through second quarter 2010



National Employment Percent Change Month Ago, Annualized (S/A) 1981 – 2010*

Source: U.S. Bureau of Labor Statistics



*Data through July 2010



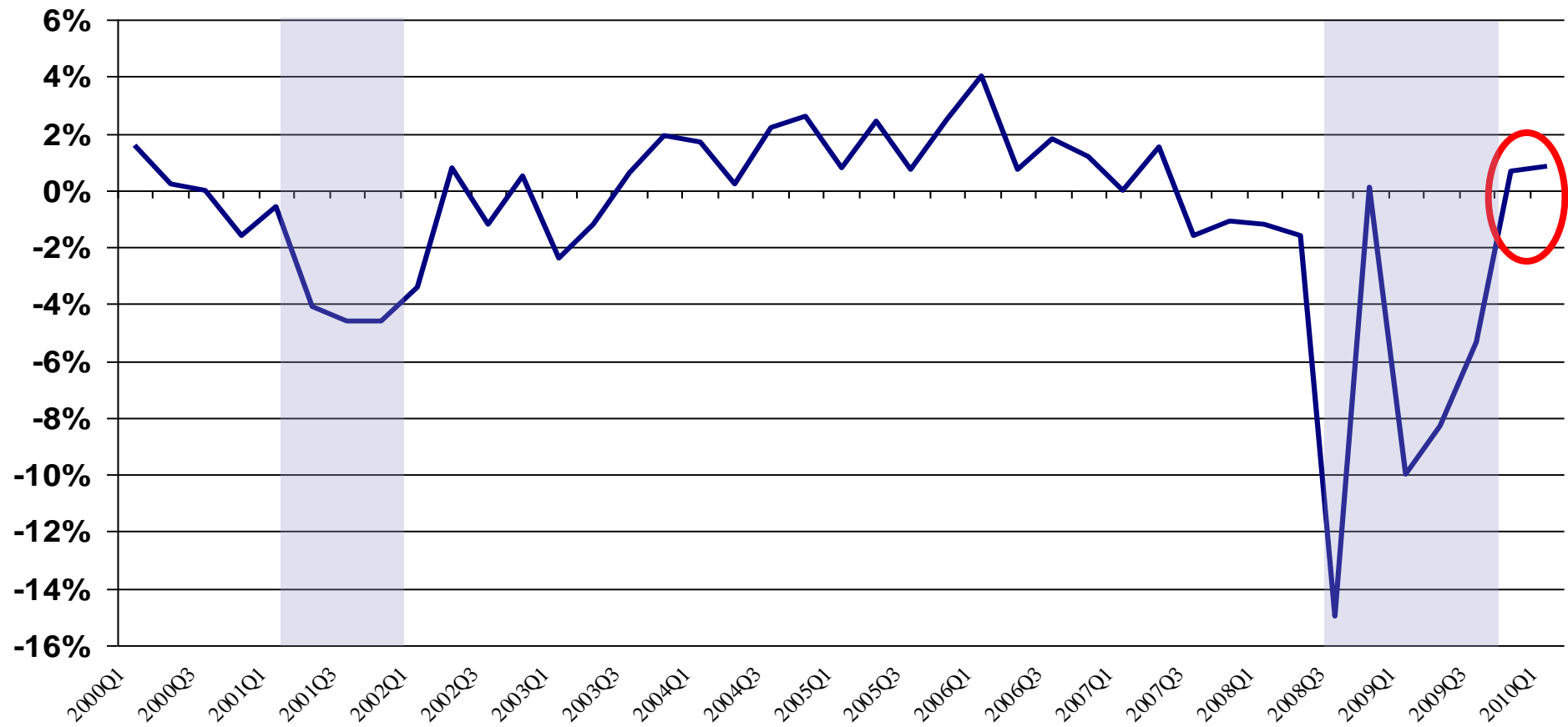
Hours Worked

Percent Change from Quarter Ago, Annualized

2000 – 2010**

Source: Bureau of Labor Statistics

Recession Periods

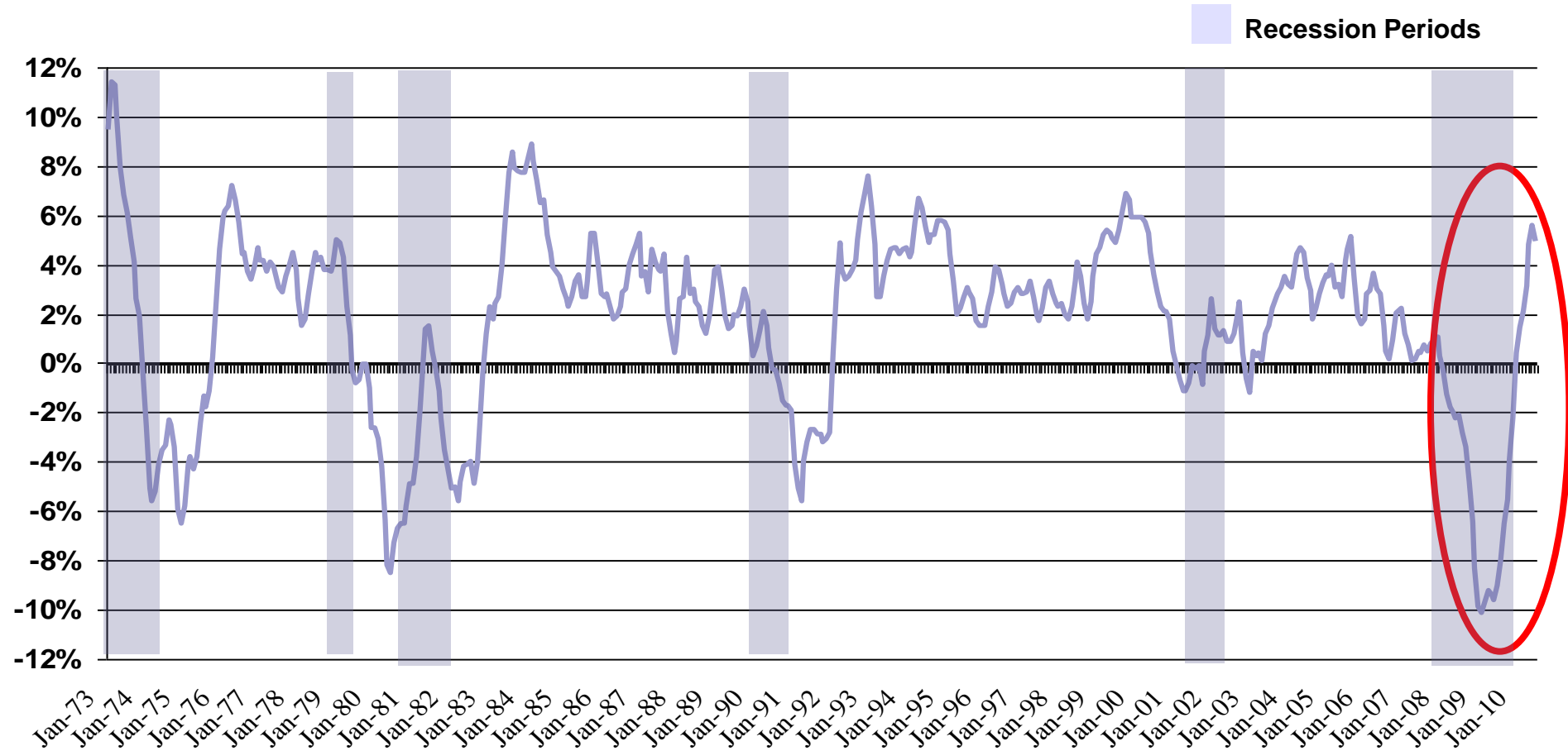


**Data through first quarter 2010



Real Retail Sales U.S. Percent Change Year Ago 1973 – 2010*

Source: Federal Reserve



*Data through June 2010

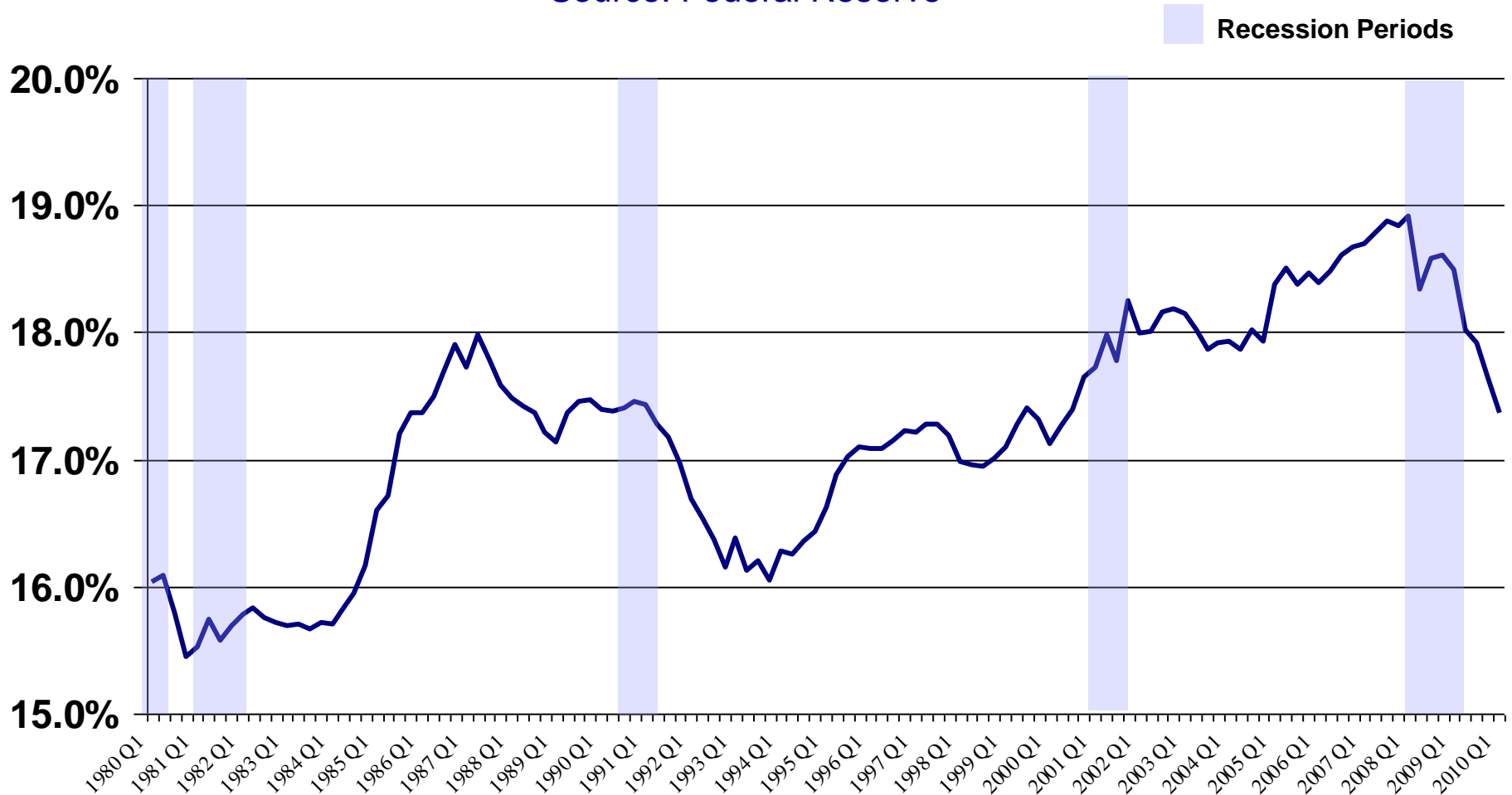
**Three-month moving average



Financial Obligation Ratio**

1980 – 2009*

Source: Federal Reserve



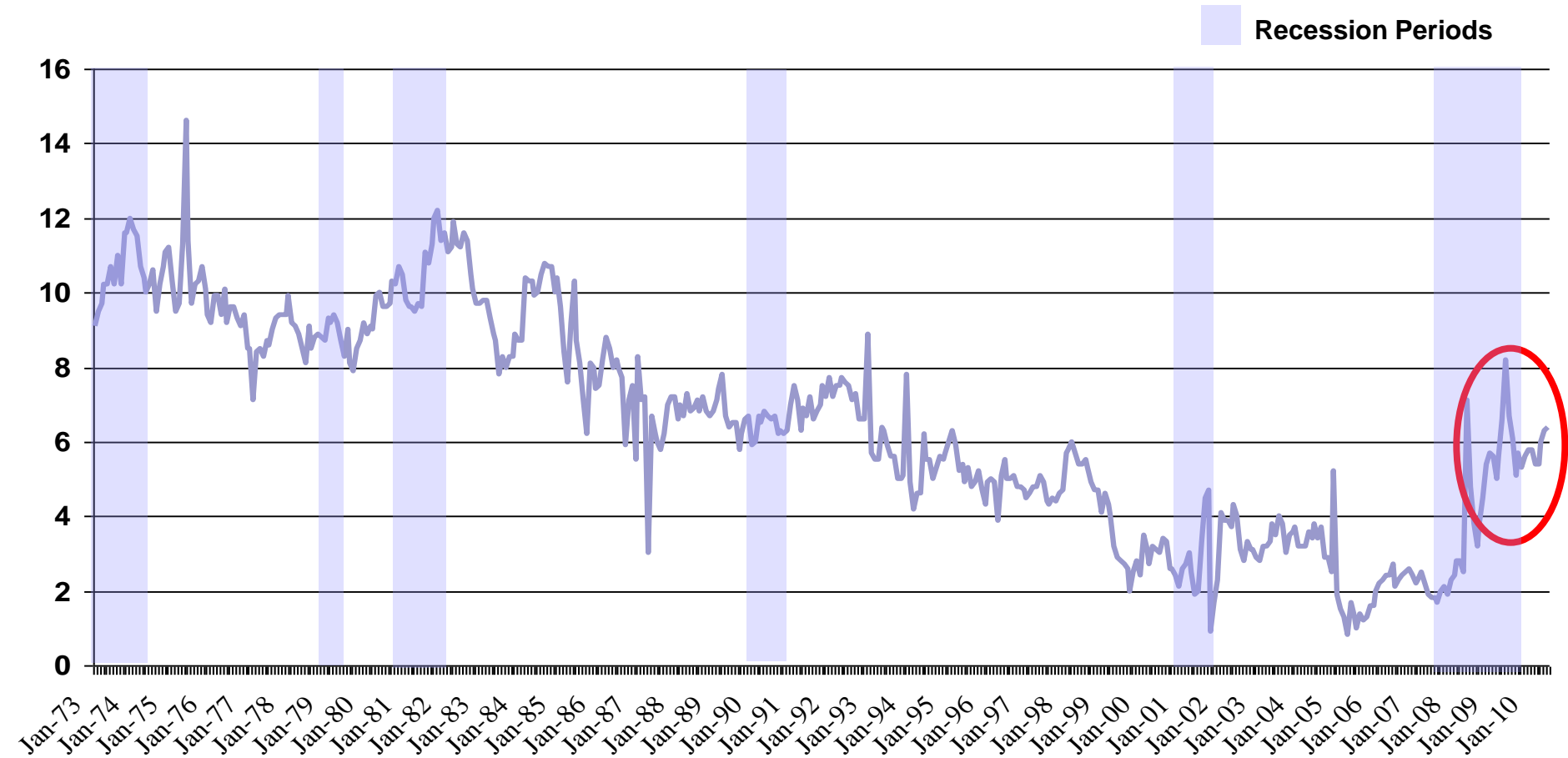
*Data through first quarter 2010

**Ratio of mortgage and consumer debt (including auto, rent and tax payments) to disposable income.



Savings Rate 1973 – 2010*

Source: Federal Reserve



*Data through June 2010

**Three-month moving average



Household Income

In the 70s and 80s

Boost in income → women entering labor force

In the 90s

Stock market boomed

First half of 2000's

Housing appreciation → house as a credit card.



Basic Story: Consumer (Households)

- Debt level improving but probably still has a way to go.
- Savings rate up but could be affected by tax increases.
- Jobs and hours worked looking better.
- Real personal income up.
- Confidence low but improving.



Business

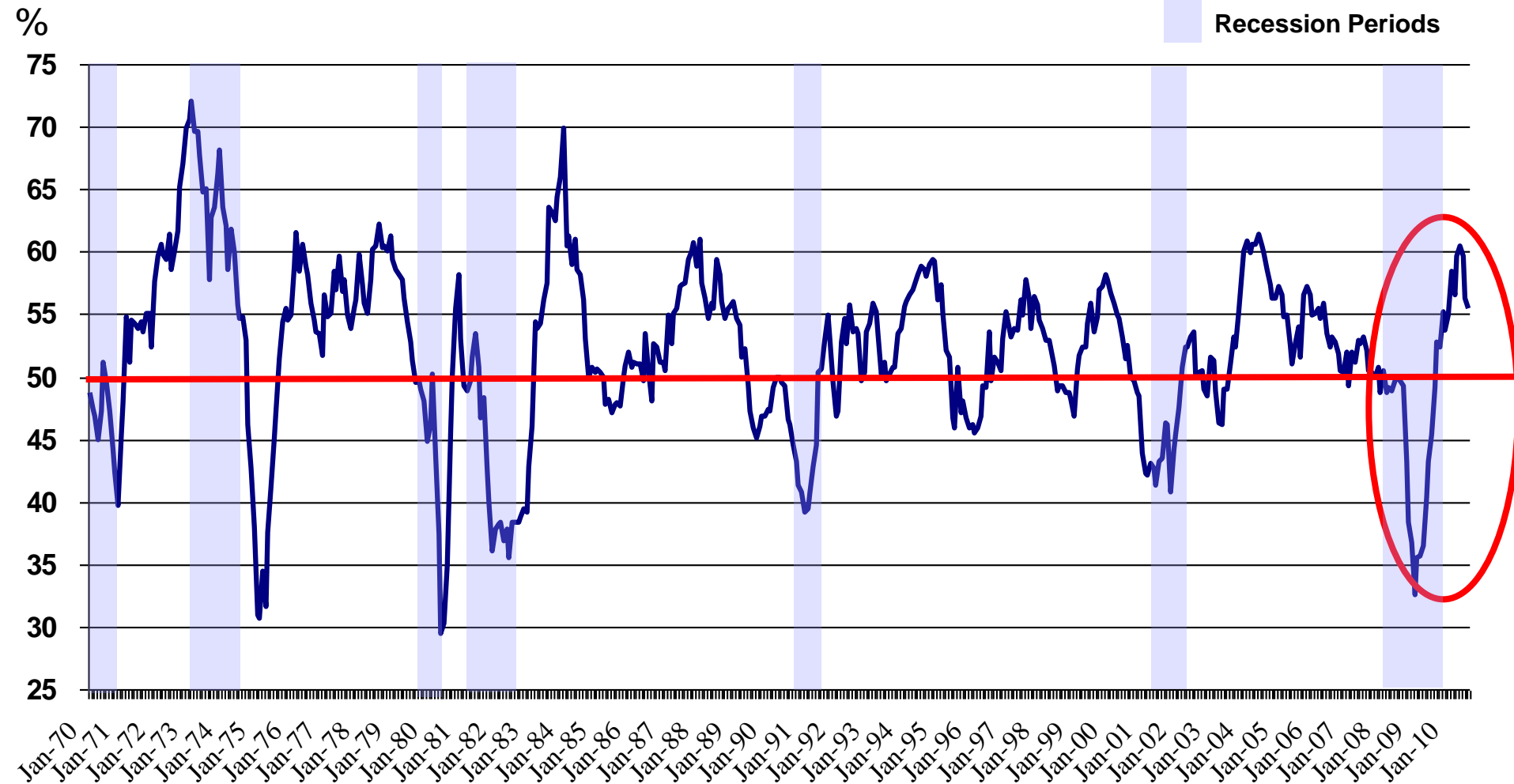
Still Ugly?



Purchasing Managers Index

1970 – 2010*

Source: Institute of Supply Management



*Data through July 2010

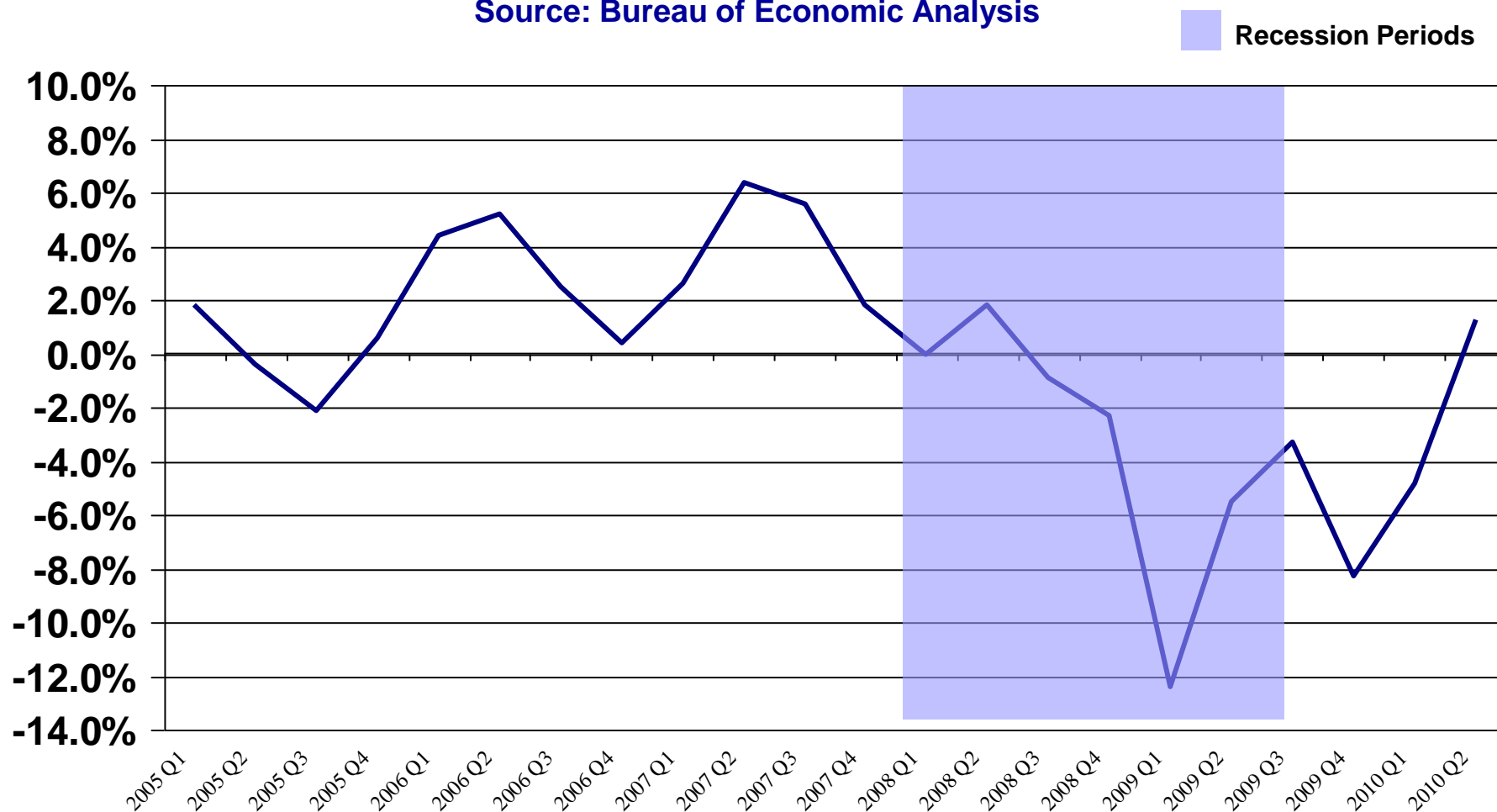


Business Spending on Plant

Percent Change from Prior Quarter

2005 – 2010*

Source: Bureau of Economic Analysis

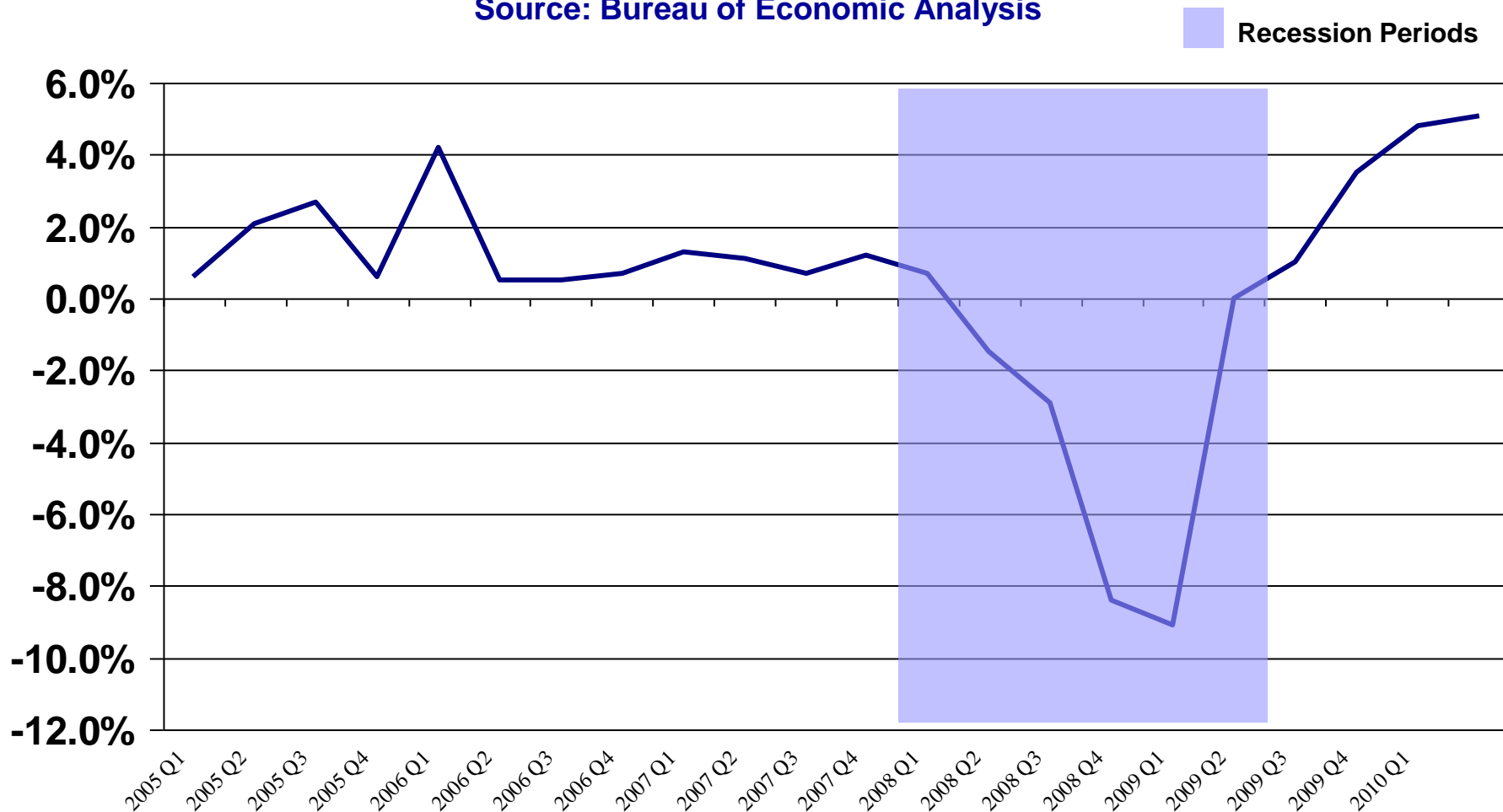


*Data through second quarter 2010



Business Spending on Equipment Percent Change from Prior Quarter 2005 – 2010*

Source: Bureau of Economic Analysis



*Data through second quarter 2010



Business Summary

- **Business spending on plant will be slow.**
- **Spending on equipment will be up.**
- **Limited positive impact during initial phase of recovery.**
- **Additional inventory corrections will enhance the growth data.**



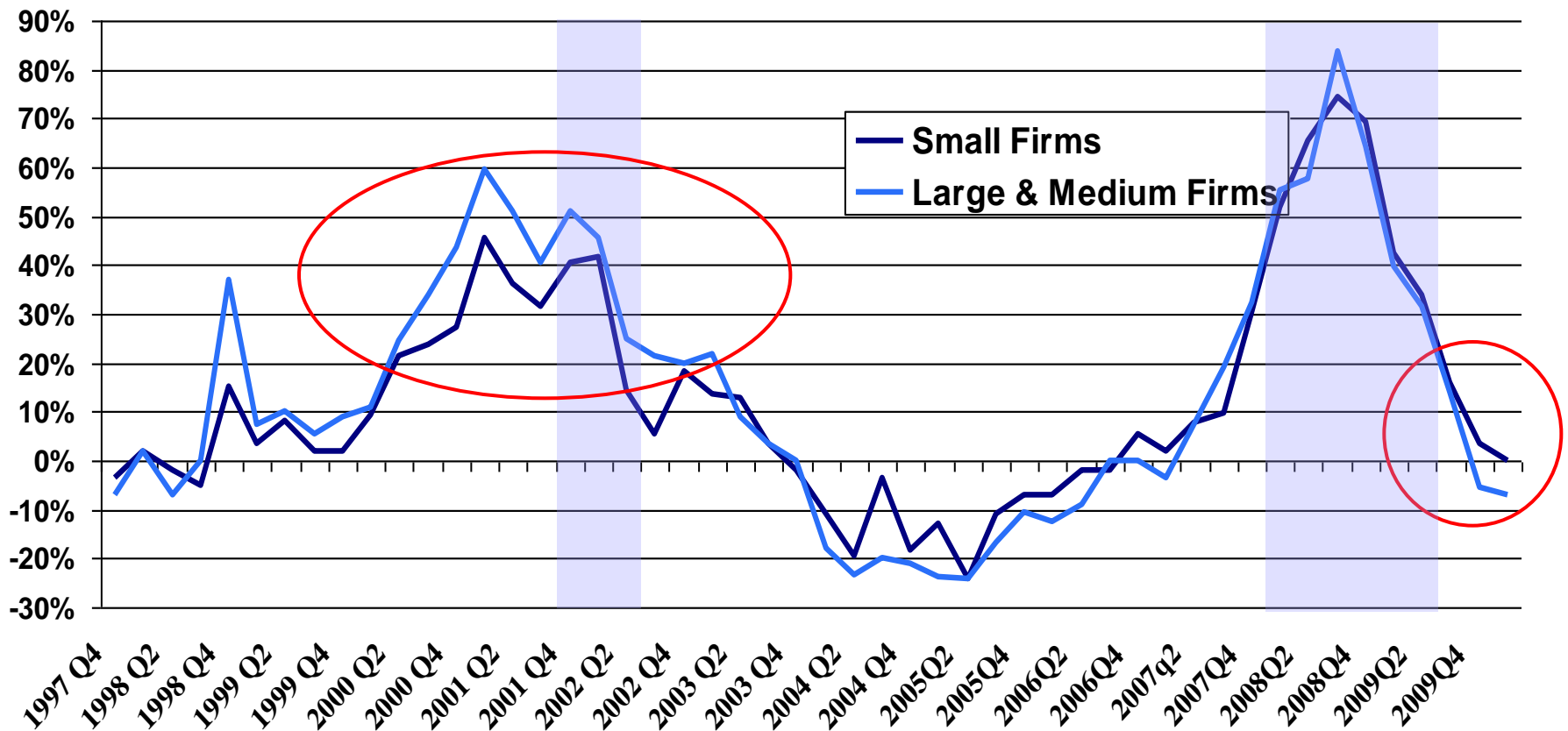
How tight is Credit?



NET Percentage of Large U.S. Banks Reporting **Tougher** Standards on Business Loans 1997 – 2010*

Source: Federal Reserve, Board of Governors

Recession Periods



* Data as of April 2010 survey.



High Yield Credit Spread 1997 – 2009*

Source: Bespoke Investment Group; Merrill Lynch

Recession Periods



*Data through October 30, 2009.

** The spread between high yield corporate bonds (non investment grade/below bbb rated) and comparable Treasuries.

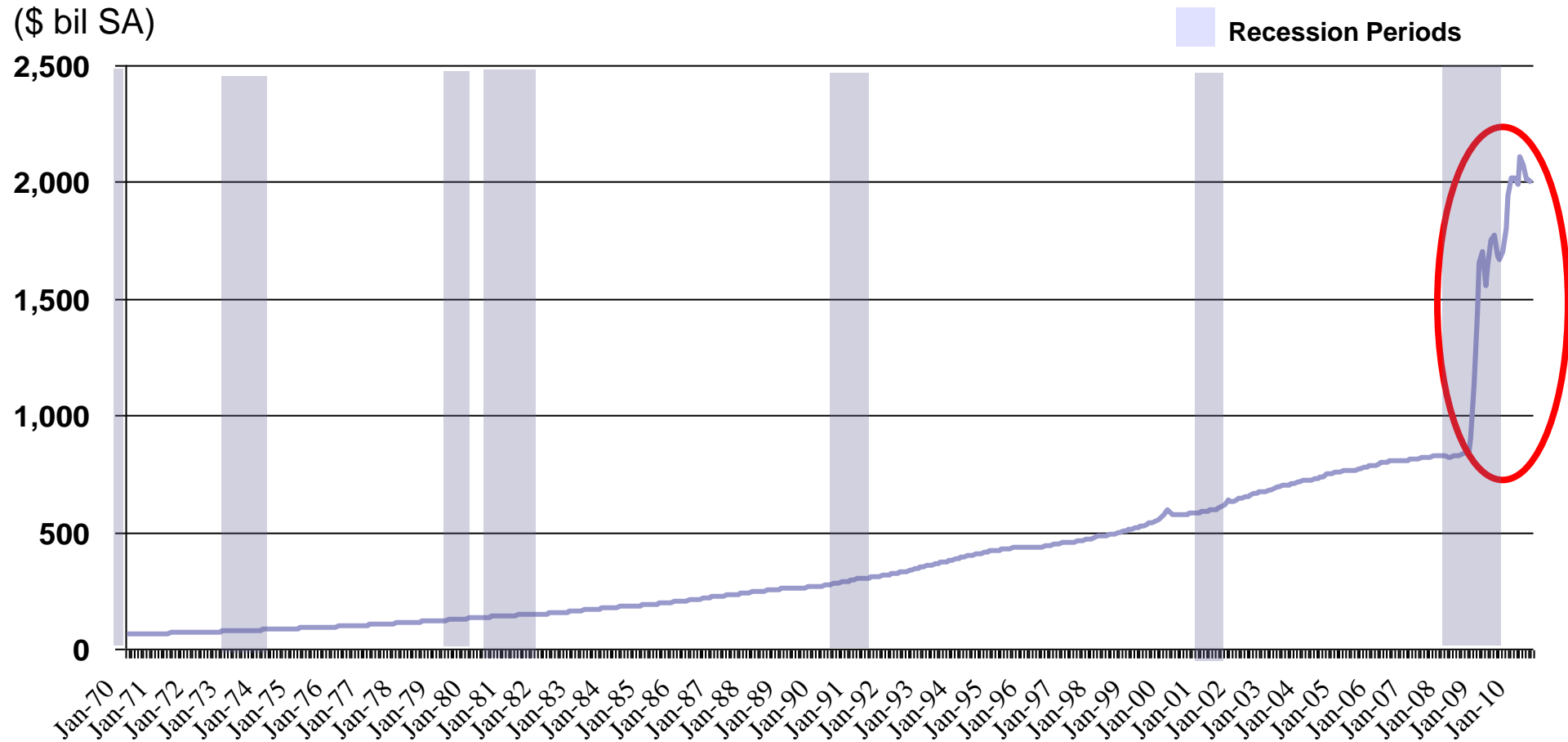


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Monetary Base*

1970 – 2010**

Source: Federal Reserve



**Data through June 2010



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*Monetary base comprises only coins, paper money and commercial bank reserves with the central bank..

Can this last?



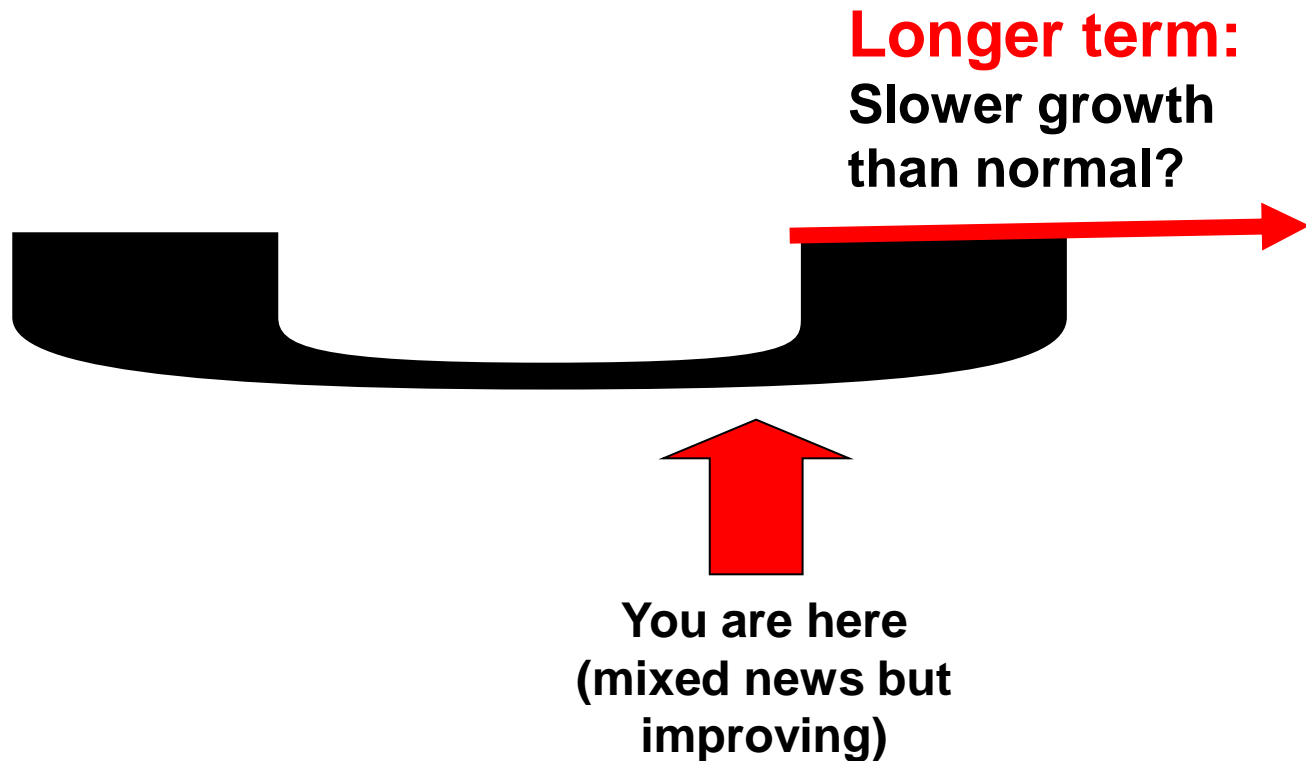
**You won't
know what
you're
getting
until it's
*TOO LATE.***



U.S. Summary



U.S. Summary:



Arizona's Recovery?





**The recovery will *vary*
by State.**

**Recovery has begun in
Arizona.**



But Arizona has some unique problems...



How Arizona Ranks Among the States in Percentage Growth

Source: U.S. Bureau of Census; Bureau of Labor Statistics; Bureau of Economic Analysis

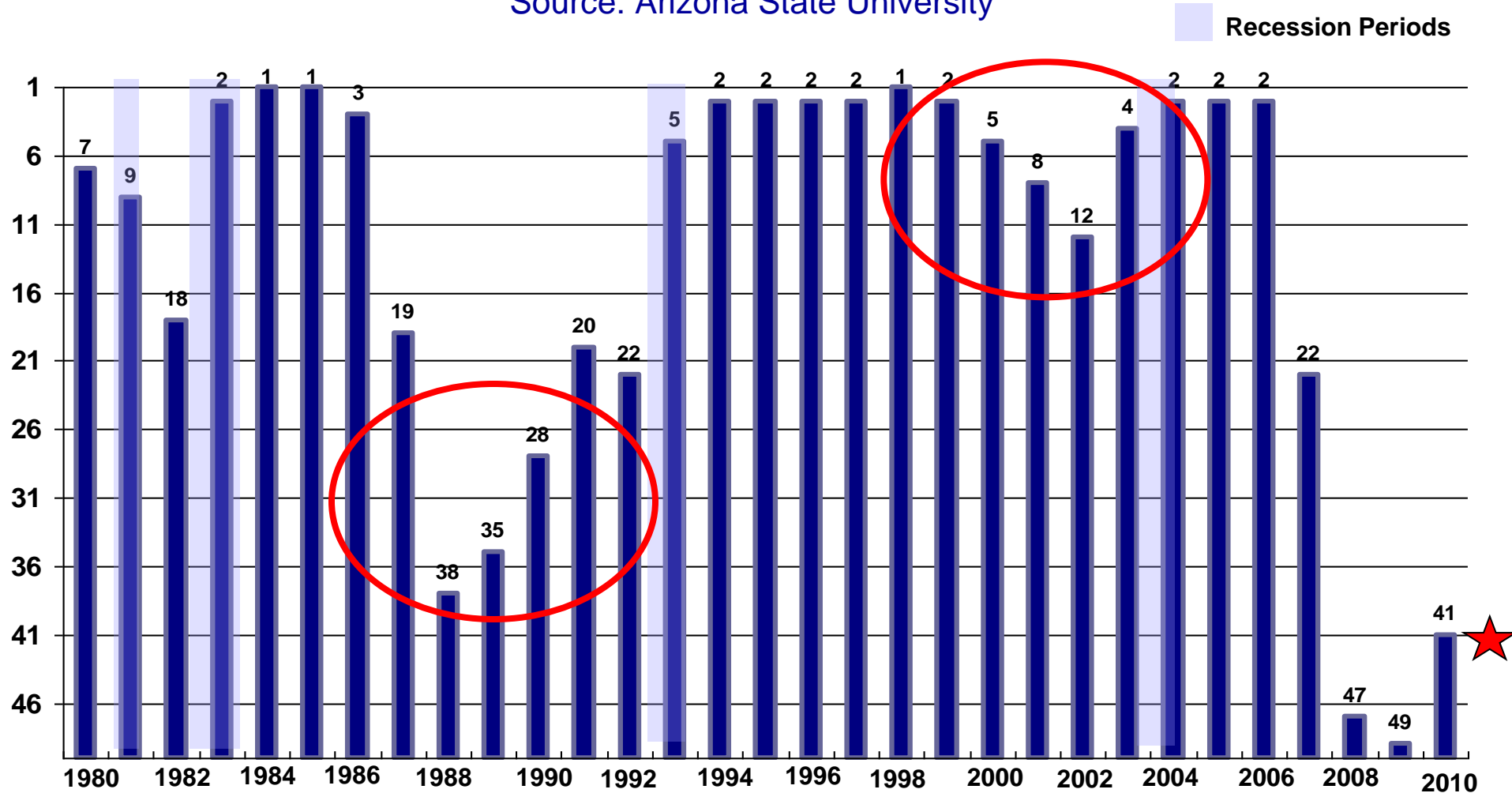
<u>DECADE</u>	<u>POPULATION</u>	<u>EMPLOYMENT</u>	PERSONAL <u>INCOME</u>
1950 - 1960	4 TH	3 RD	4 TH
1960 - 1970	3 RD	3 RD	4 TH
1970 - 1980	2 ND	3 RD	3 RD
1980 - 1990	3 RD	3 RD	5 TH
1990 - 2000	2 ND	2 ND	3 RD
2000 – 2009	2 ND	11 th	3 RD



Arizona Employment Rank Among 50 States

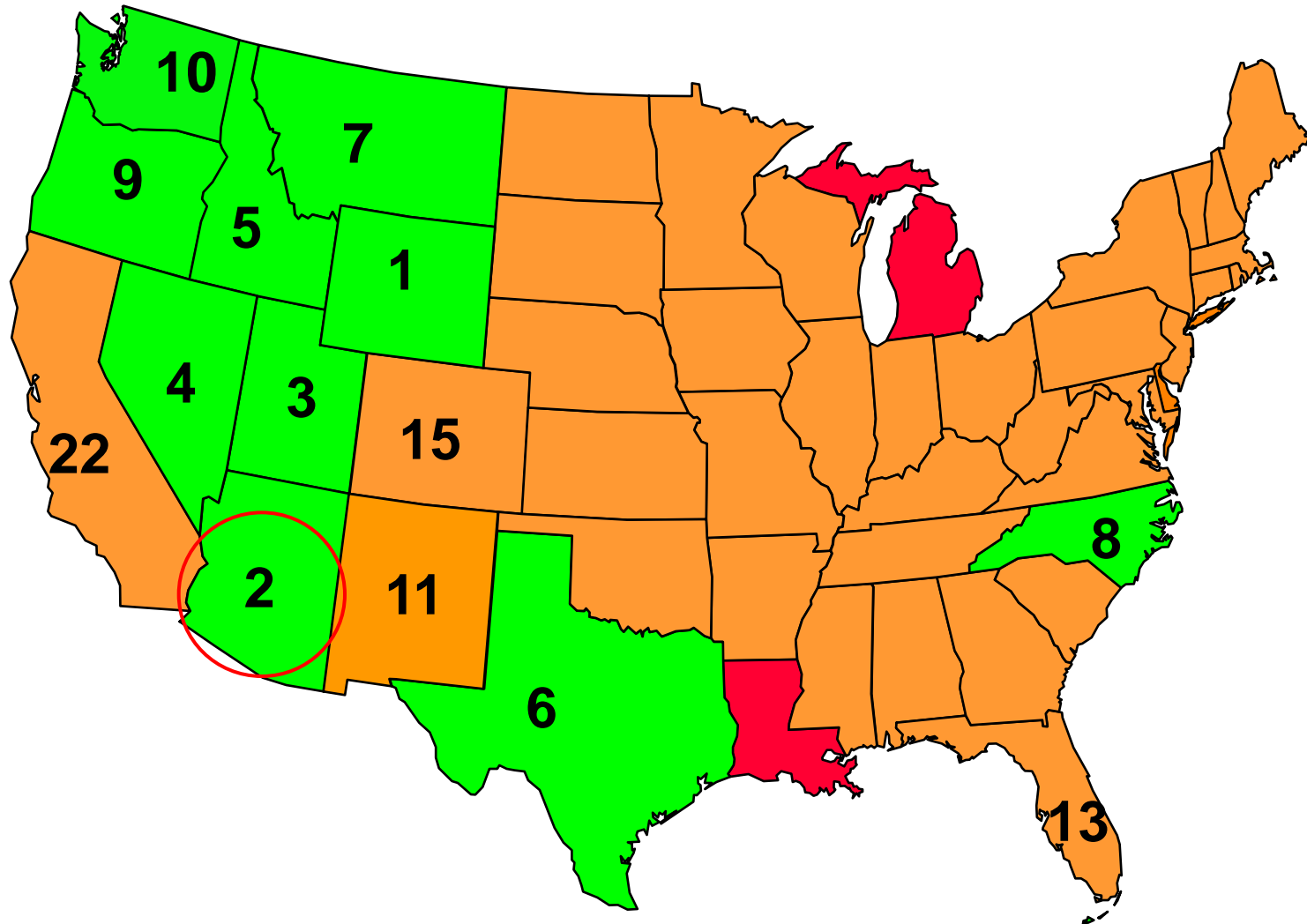
1980 – 2010 Growth Over Previous Year

Source: Arizona State University



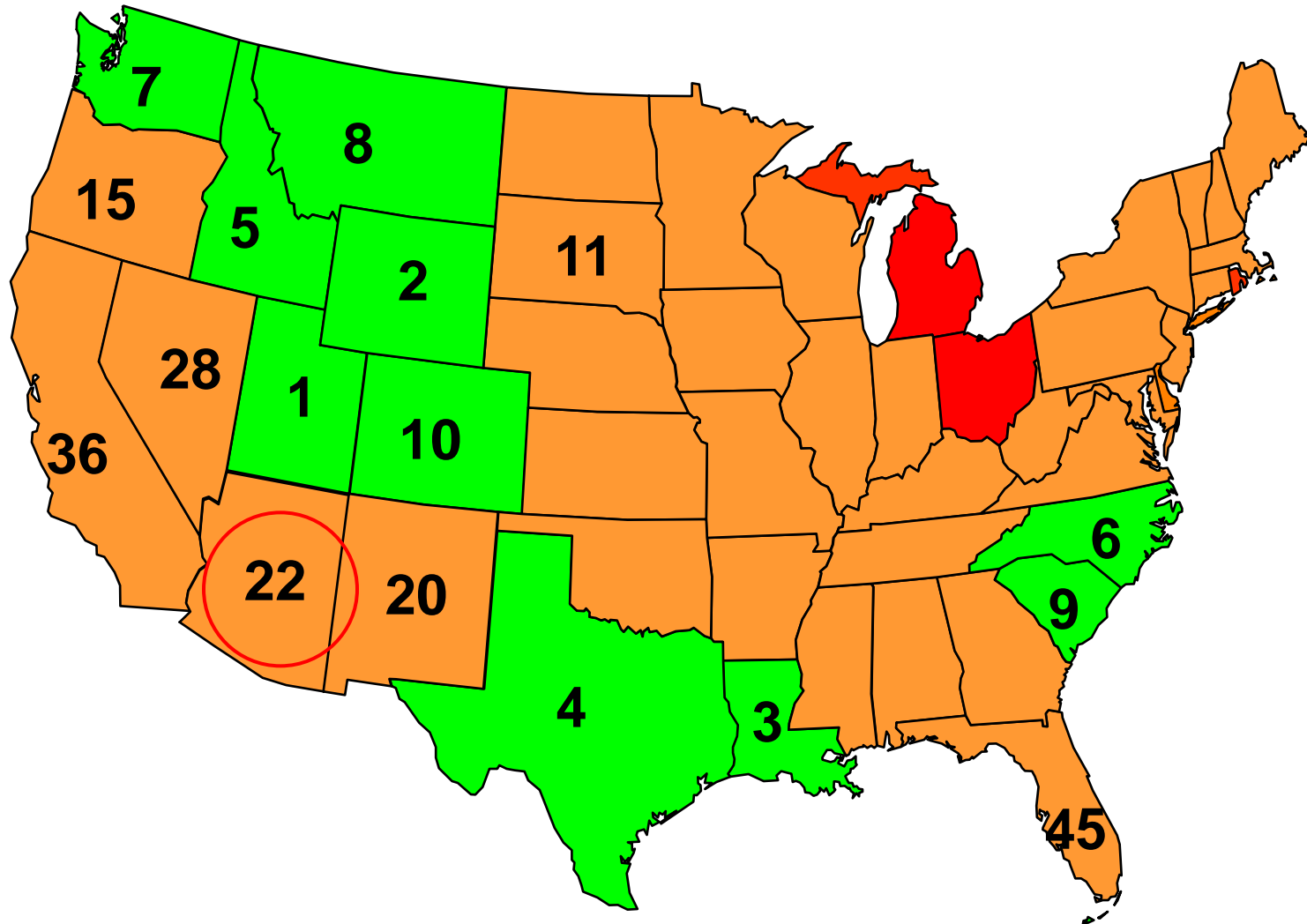
Job Growth 2006

Source: US BLS



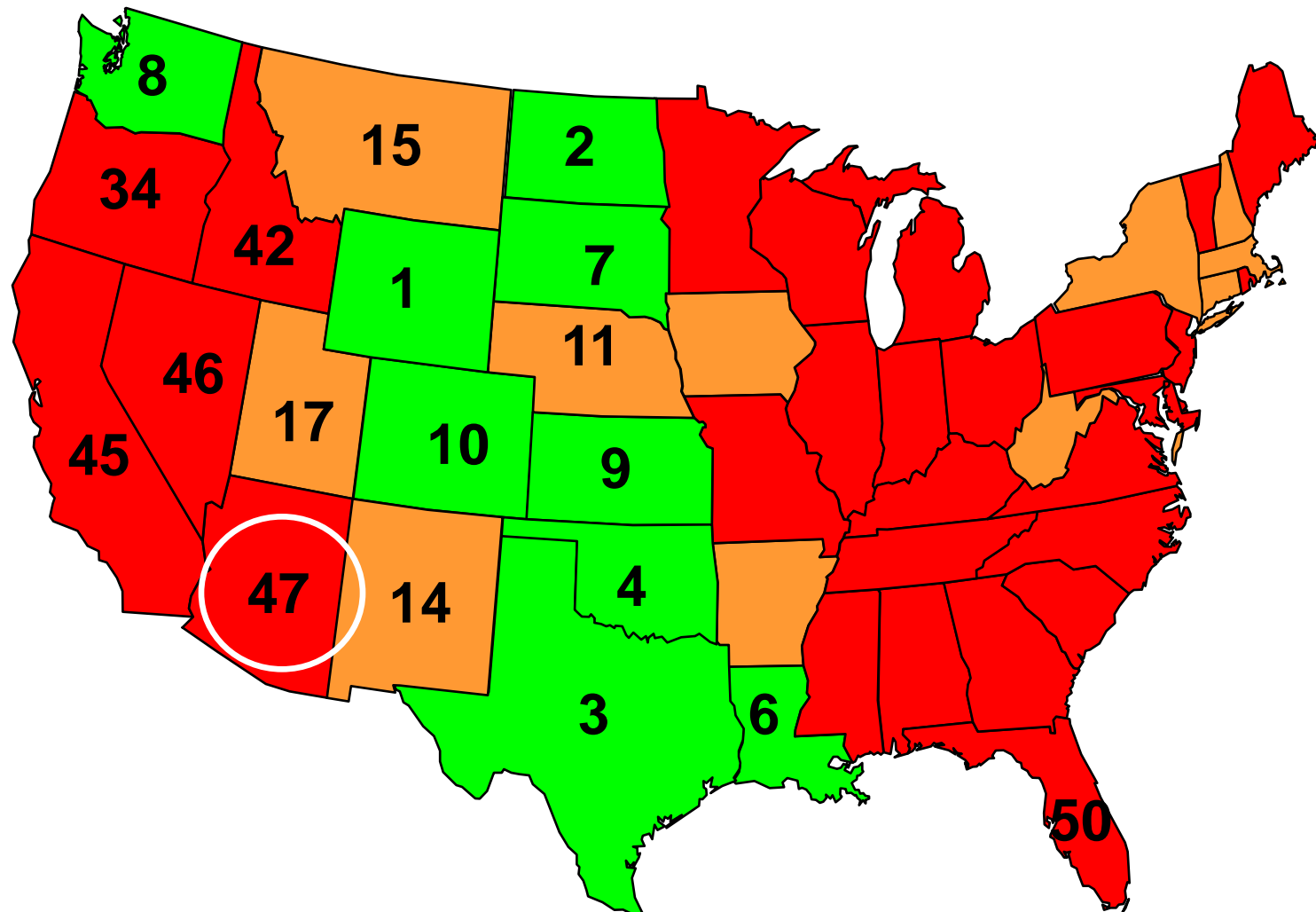
Job Growth 2007

Source: US BLS



Job Growth 2008

Source: US BLS

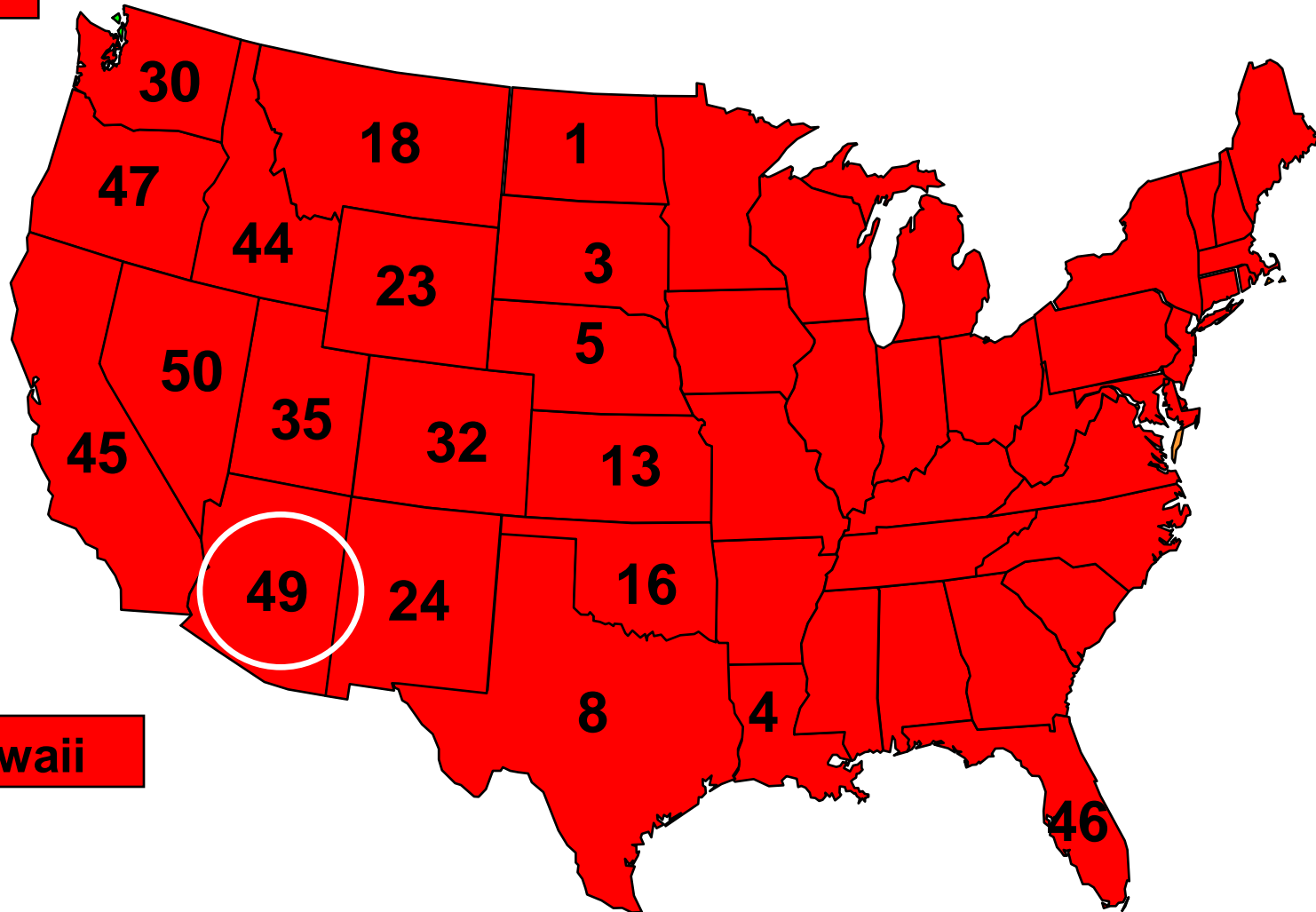


Job Growth 2009

Source: US BLS

Alaska

2



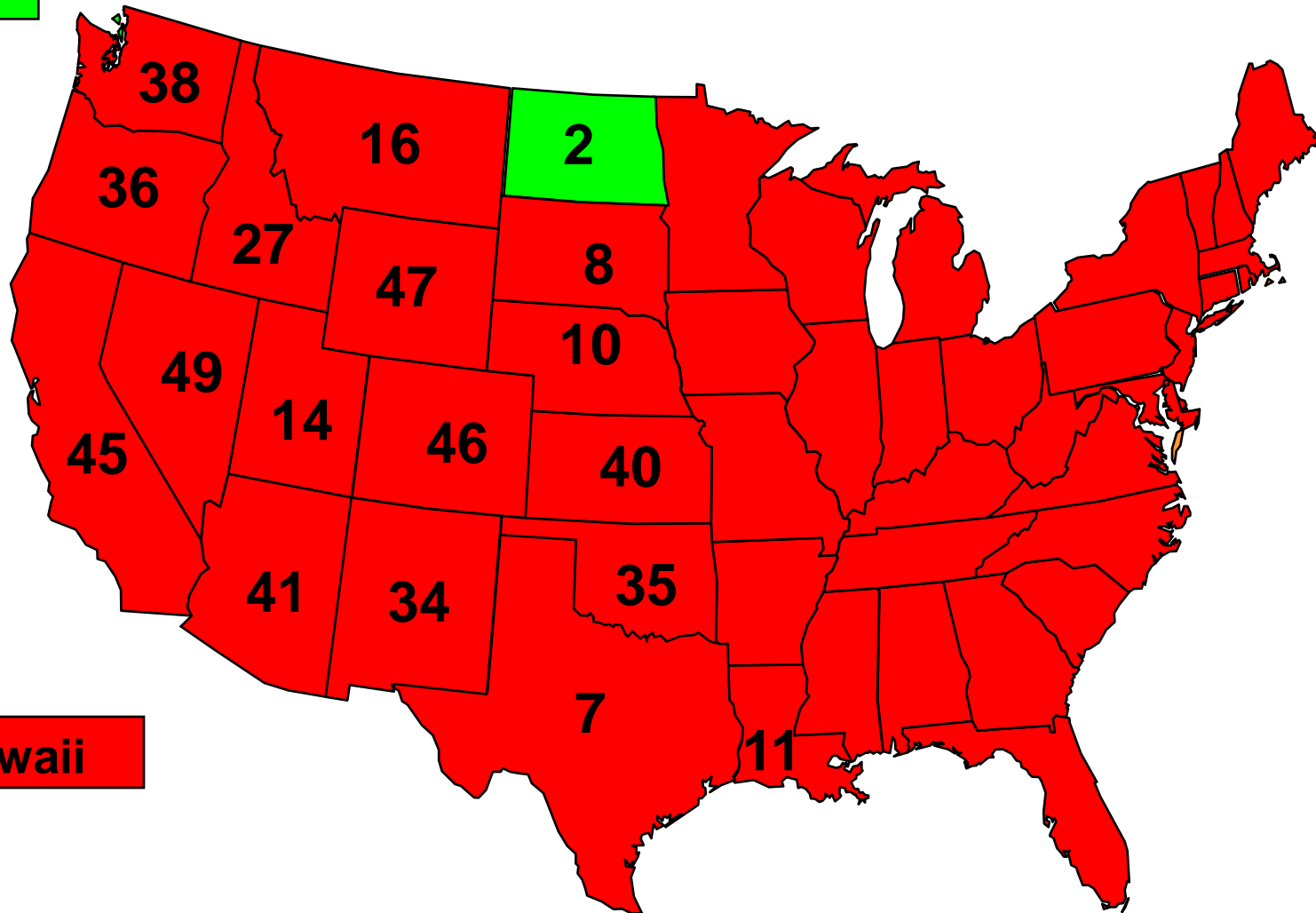
Hawaii



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Job Growth Update: Arizona Falls to 41st June 2010 YTD v June 2009 YTD

Alaska
1



Hawaii



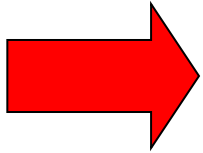


So, how did
we go from
2nd to **49th**
??

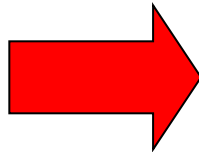


How did AZ go from 2nd to 49th?

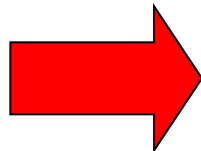
- Financial meltdown.
- Credit crunch/freeze.
- Overextended consumer.
- Excess single family inventory.



- Loss of wealth incl. home equity.
- Can't sell homes or retire.
- Homebuilding crash.
- ***Population inflows weaken.***



- Excess commercial construction



- ***Construction job losses.***
- ***All sector job losses.***



How did we go from 2nd to 49th?

Population Growth

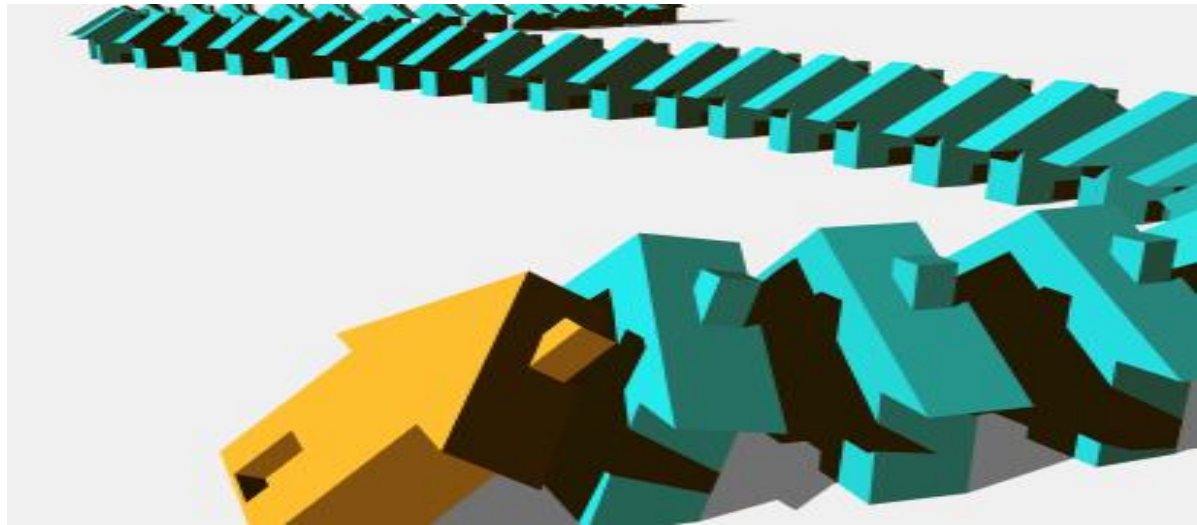
	<u>2007</u>		<u>2009</u>
U.S.	0.9%	→	0.9%
Arizona	3.1%	→	0.8%
	(195,000)		(55,000)



How did we go from 2nd to 49th?

Housing boom turns into bust

Permits	2004	2005	2006	2007	2008	2009
U.S.	7.4%	6.5%	-14.6%	-28.6%	-40.5%	-28.5%
Greater Phoenix	27.6%	4.4%	-33.3%	-26.5%	-59.6%	-26.5%



How did we go from 2nd to 49th?

Commercial Construction
Peak to Current 2009



Percent Decline	Office	Retail	Industrial
U.S.	-15.4%	-51.4%	-57.5%
Greater Phoenix	-63.3%	-60.3%	-65.8%



How did we go from 2nd to 49th?

Commercial construction real estate drops dramatically.

Millions of Sq. Feet Built	Office	Retail	Industrial
Peak	4.9	11.1	13.9
2009	1.8	4.4	4.8
2010 (f)	>1.0	>1.0	>1.0



How did we go from 2nd to 49th?

Base industries of Arizona were impacted

- a) Semi-conductors
 - Go into durables
 - Jobs being sent overseas
- b) Tourism
- c) Retirement



Bad National Press?



Between 1987 and 1992

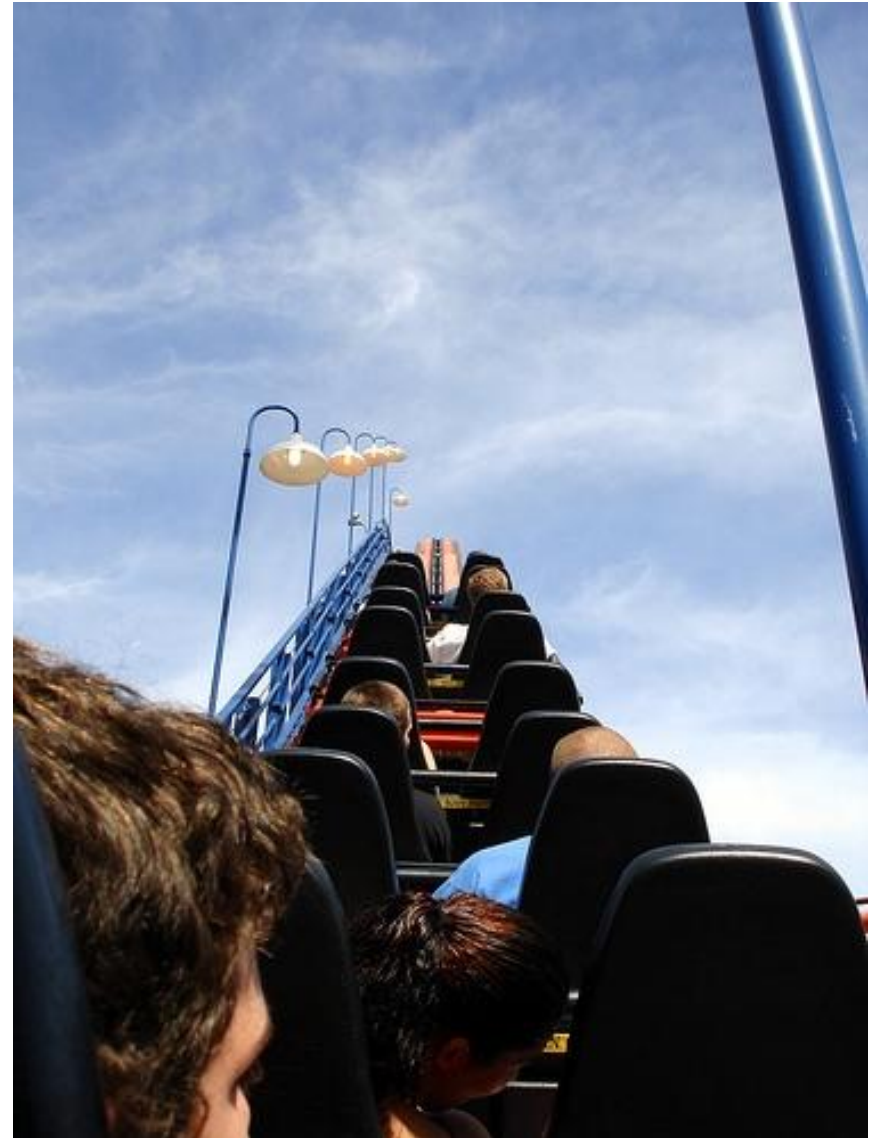
- **Governor impeached**
- **Real estate depression**
- **Defense cutbacks**
- **AZ Scam**
- **Martin Luther King Holiday Crisis**
- **Keating**
- **Keating 5**
- **Every S&L taken over by RTC**



No
long-term
effects.



So, how
do we go
from
49th to 2nd
???



There is always hope.



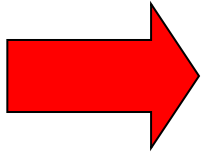
How do we go from 49th to 2nd?

It will take a
while, but we
can get there
if...

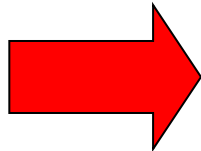


How does AZ go from 49th to 2nd?

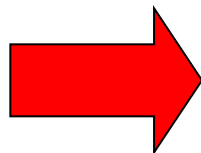
- ***Wait. Slow recovery.***
- Credit frees up.
- Consumers more confident.



- Overall US economy improves.
- Stock market improves.
- Housing prices rise.



- ***People move to AZ.***
- Excess housing absorbed.
- ***Construction job gains.***



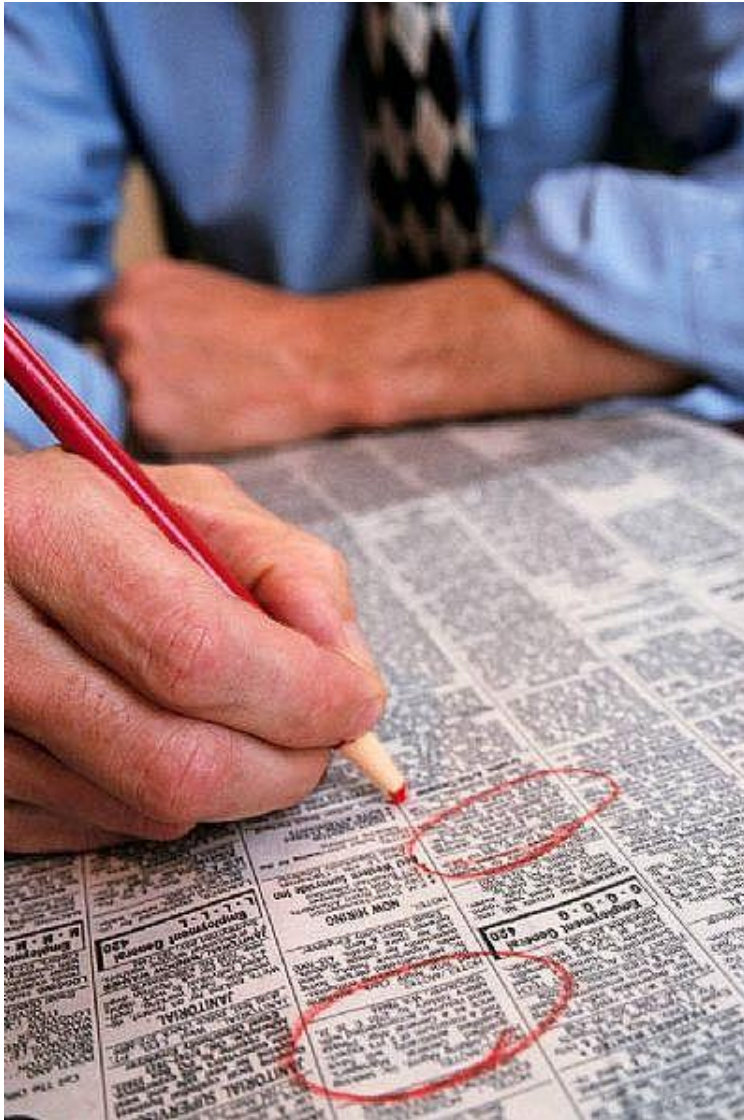
- ***All sector job gains.***
- Improved government revenue.
- Grow our base industries!!!



How do we go from 49th to 2nd?

- 2010 will be better than 2009
- 2011 will be better than 2010.
- It will be 2012 or 2013 before the State is growing rapidly again.





From June 2008
to June 2010

Greater Phoenix
has lost

1 job for every
11.2 jobs



Phoenix-Mesa Employment*

Source: Arizona Department of Commerce, Research Administration

Sectors in Decline

Mining	0.0%
Construction	-11.1%
Manufacturing	-1.6%
Transp. & Utilities	-1.0%
Information	-9.8%
Financial Activities	-4.7%
Government	-0.8%

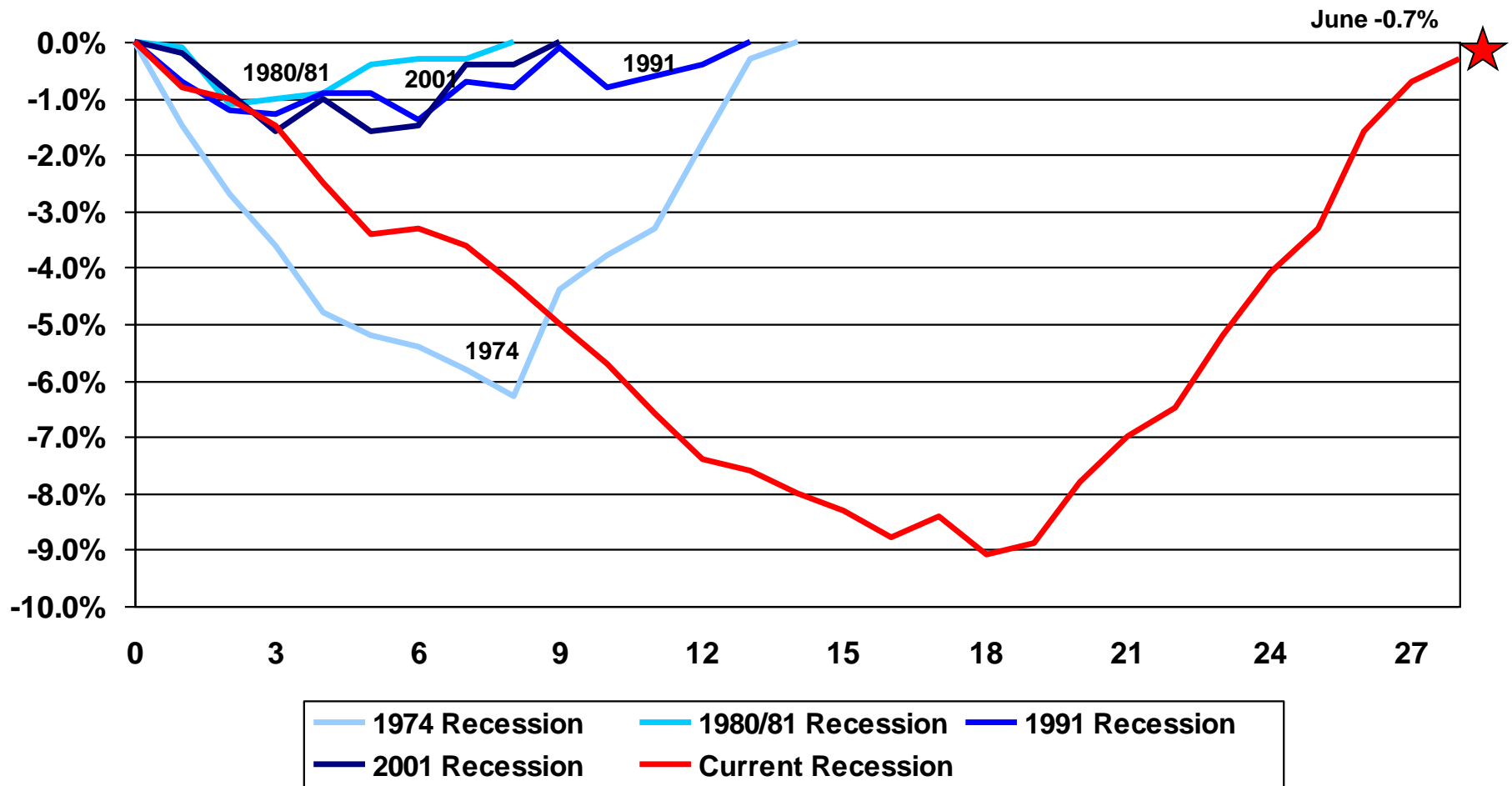
Sectors Improving

Education & Health Services	3.6%
Trade	2.4%
Leisure & Hospitality	1.0%
Prof. & Bus. Services	0.7%
Other Services	1.4%



Greater Phoenix Y/Y Job Losses - Recent Recessions

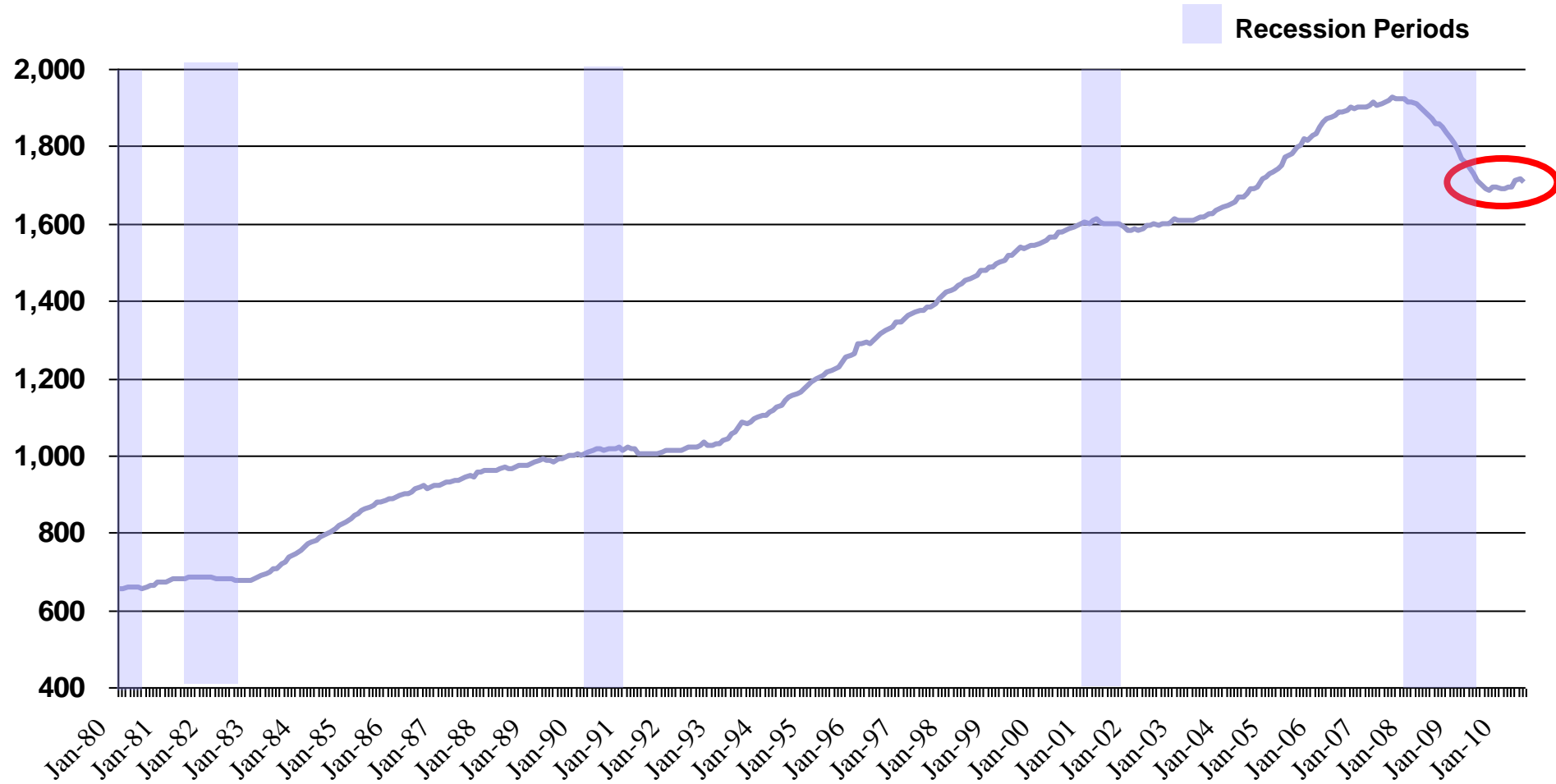
Duration in Months - BLS



Greater Phoenix Employment (S/A)

1980 – 2010*

Source: U.S. Bureau of Labor Statistics

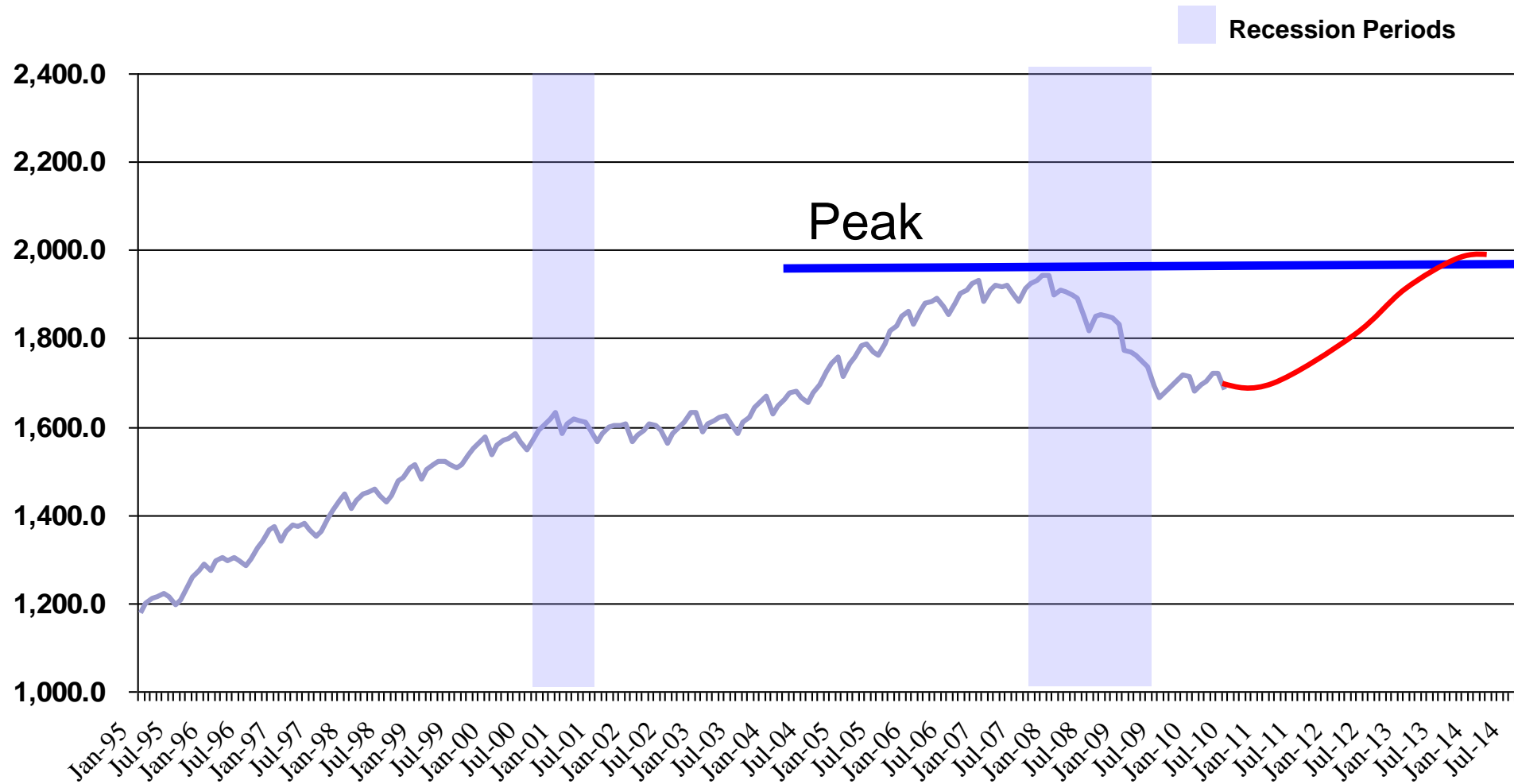


*Data through June 2010



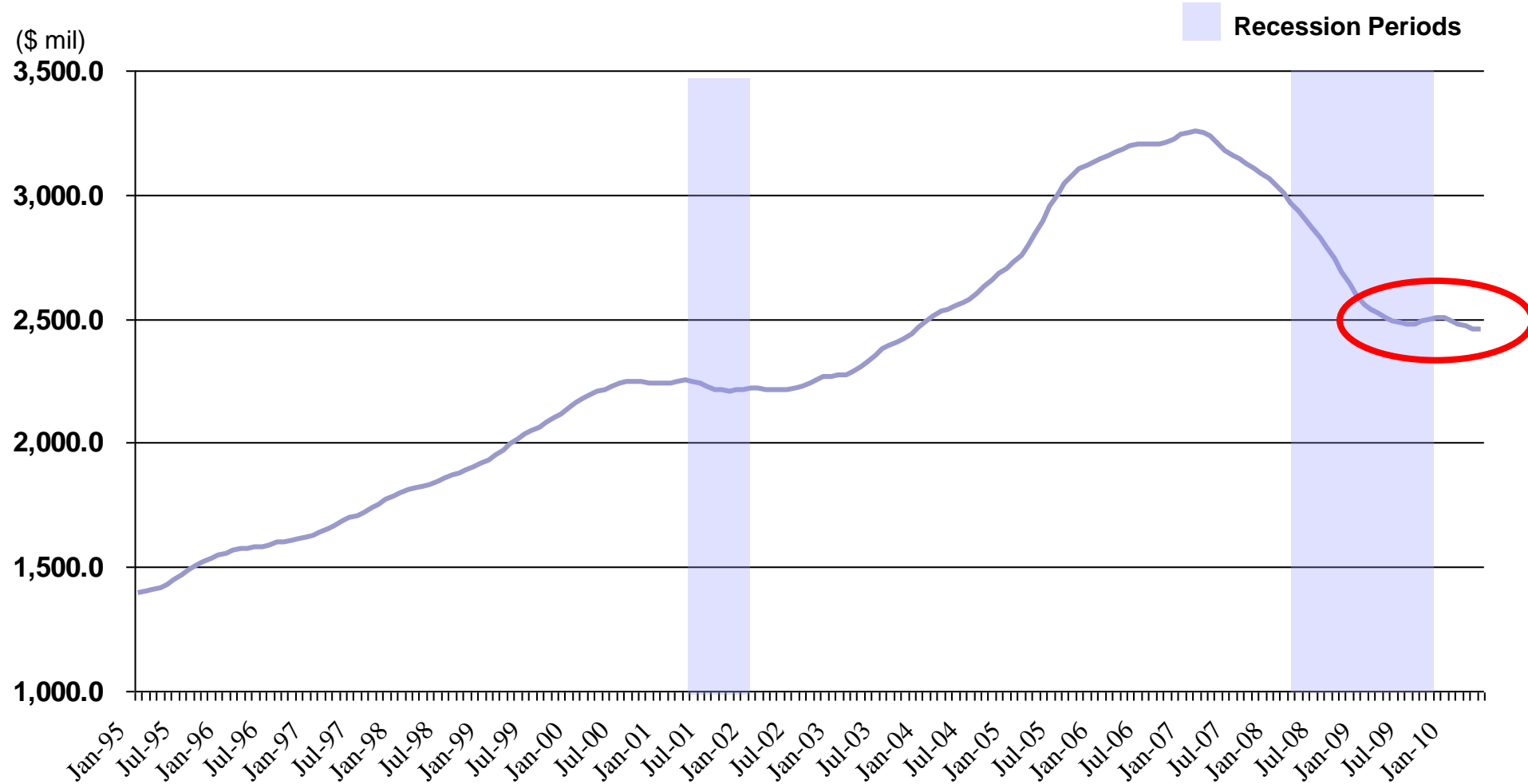
Employment Levels: Greater Phoenix back to Peak in 2014

Source: ADOC



Retail Sales Levels Greater Phoenix

Source: University of Arizona



Glimmers of hope for the housing market...



SUPPLY V. DEMAND



A photograph of a sumo wrestling match. A very large sumo wrestler, representing 'Supply', is in a crouching stance on the left. A much smaller person, representing 'Demand', is in a similar crouching stance on the right, facing the larger wrestler. The word 'SUPPLY' is written in large yellow letters across the larger wrestler's chest. The word 'demand' is written in smaller yellow letters on the back of the smaller person's red mawashi.

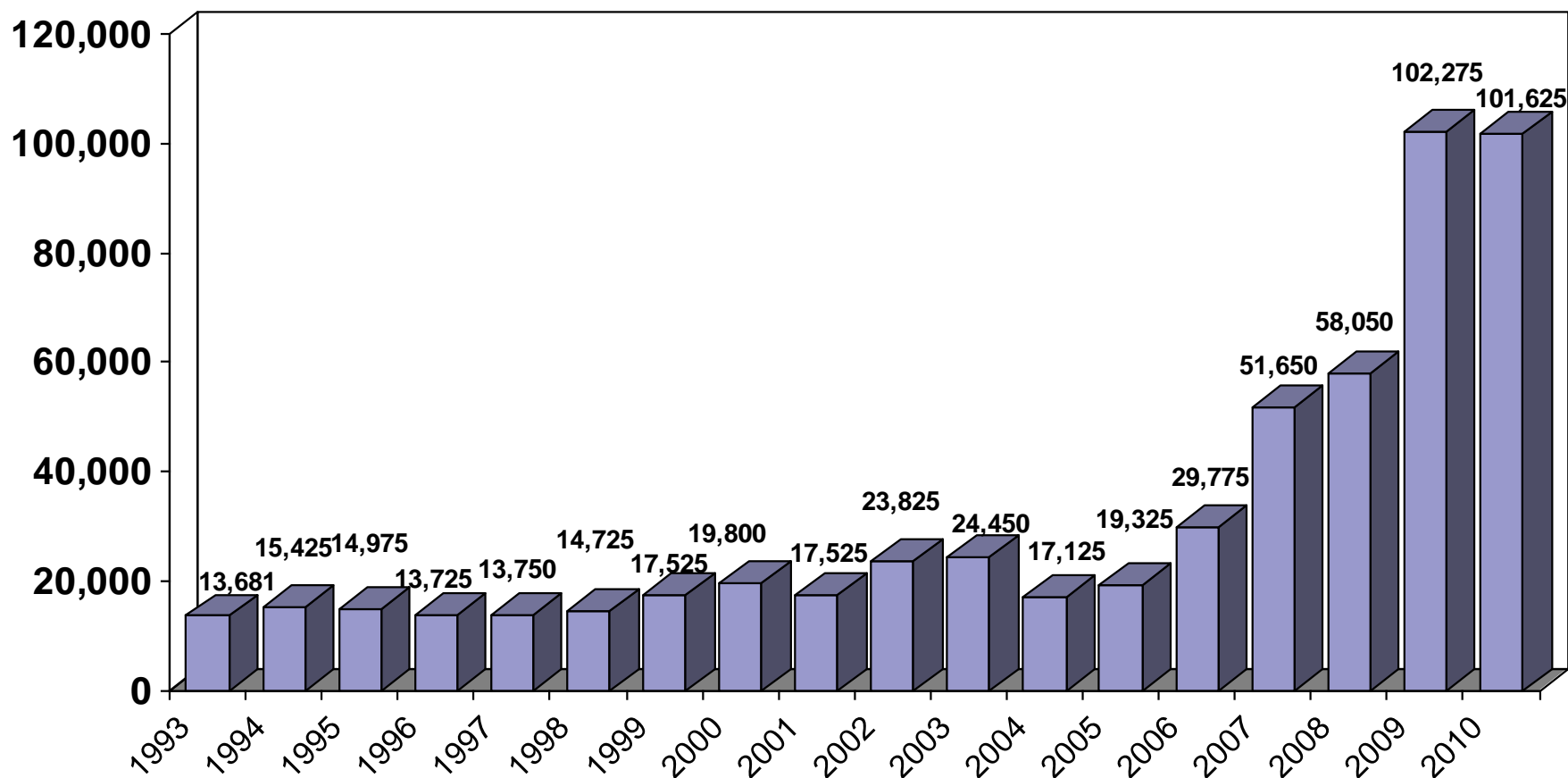
SUPPLY

demand

**Excess
supply could
still be
40,000 to
50,000 units
regardless of
how
we do the
calculation.**

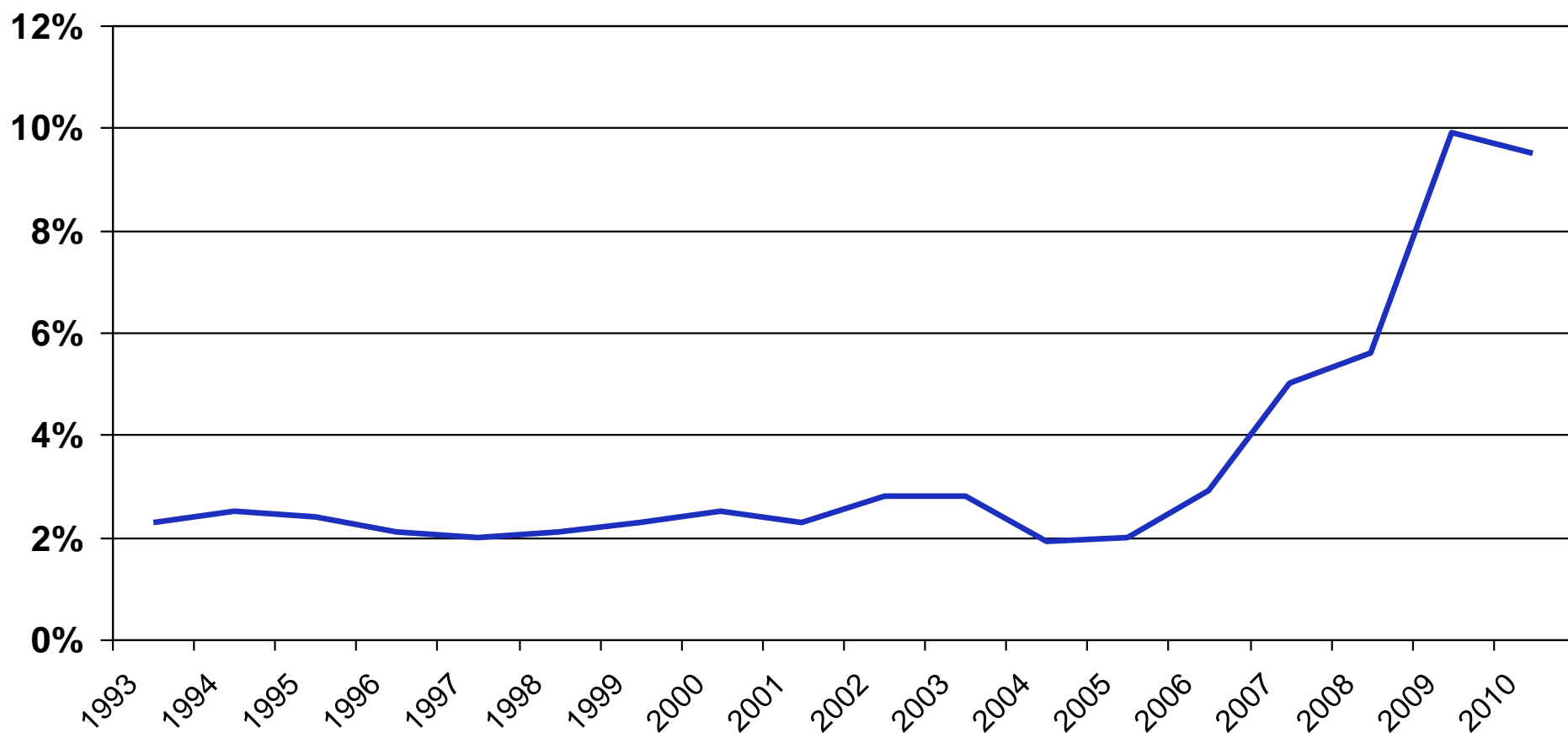
Single-Family Vacant Units Greater Phoenix 1993–2010q2

Source: PMHS



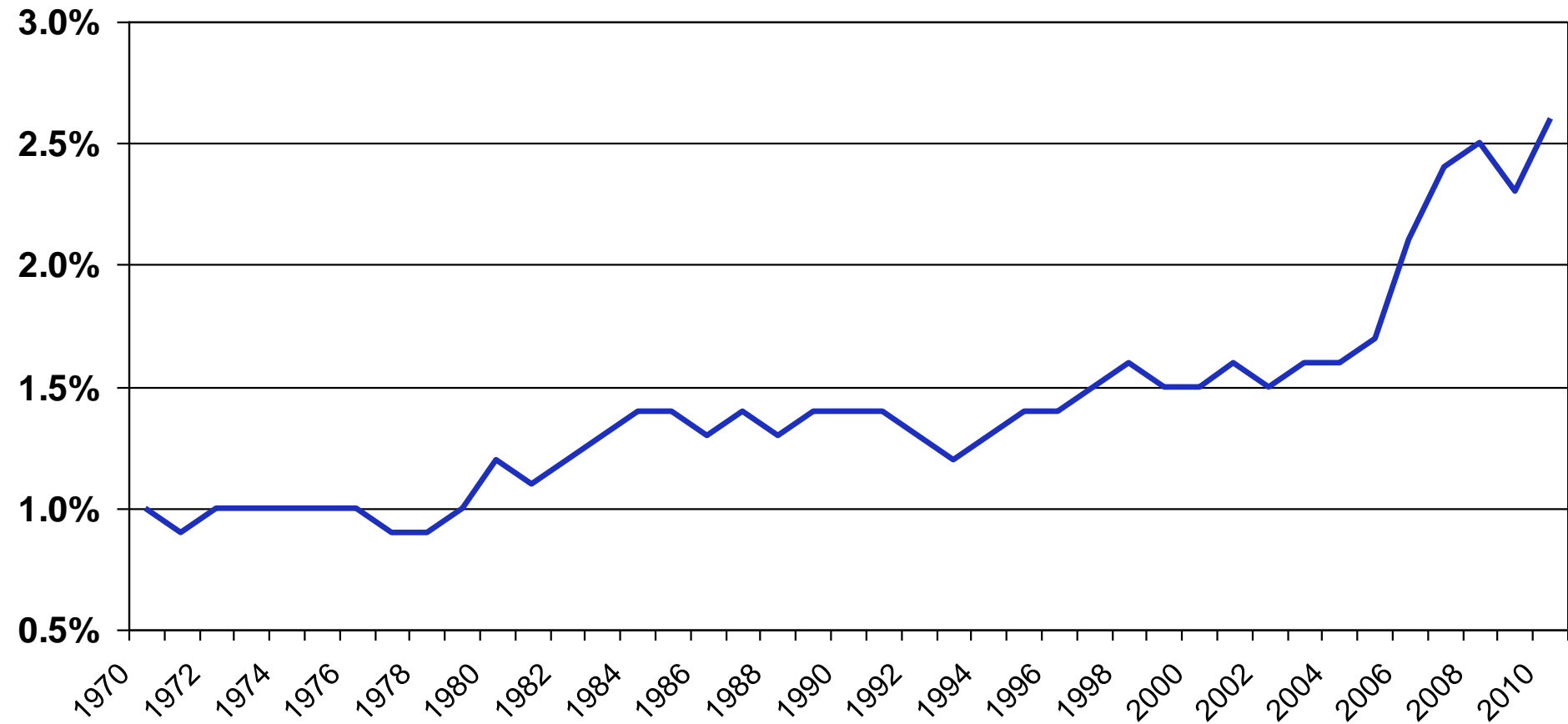
Single-Family Vacancy Rate Greater Phoenix 1993–2010q2

Source: PMHS



Single-Family Vacancy Rates National 1970–2010q2

Source: Census Bureau



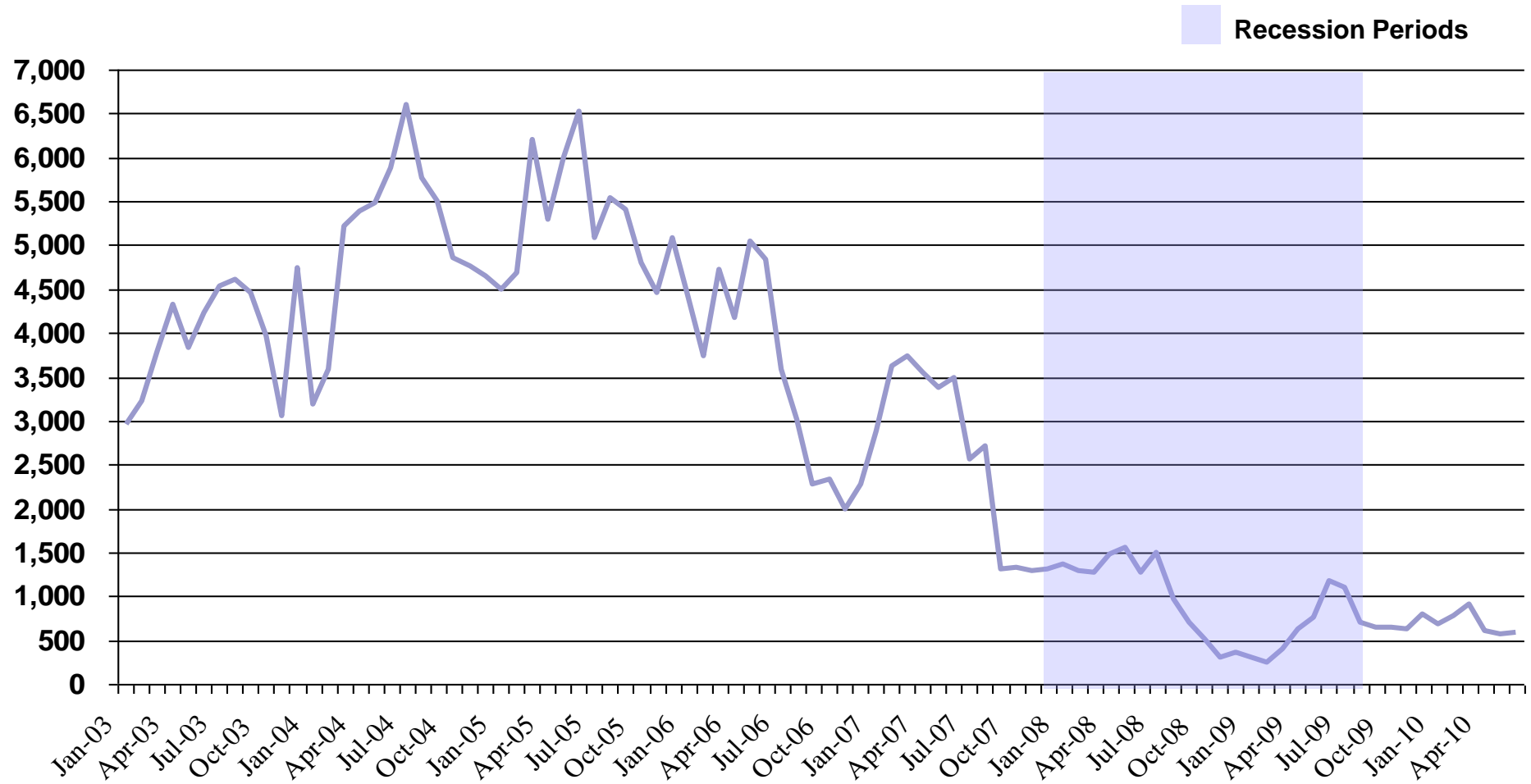
Household Formations

Lower during recessions
(doubling up, living at
home with mom & dad, etc)



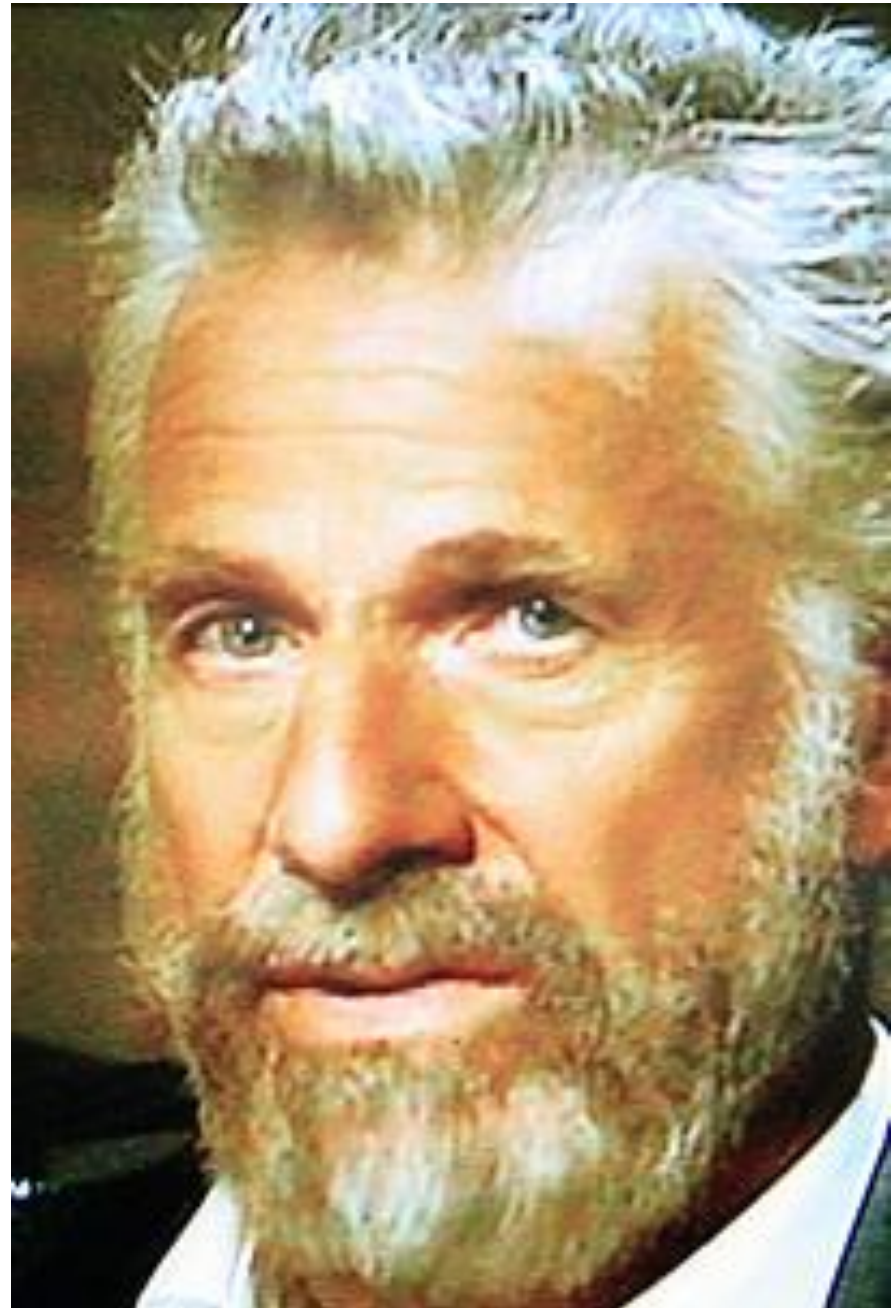
Single Family Permits 2003 – 2010*

Source: RL Brown



**I don't always
buy houses,
but when I do,
I prefer
foreclosures.**

**Stay thirsty
my friends.**

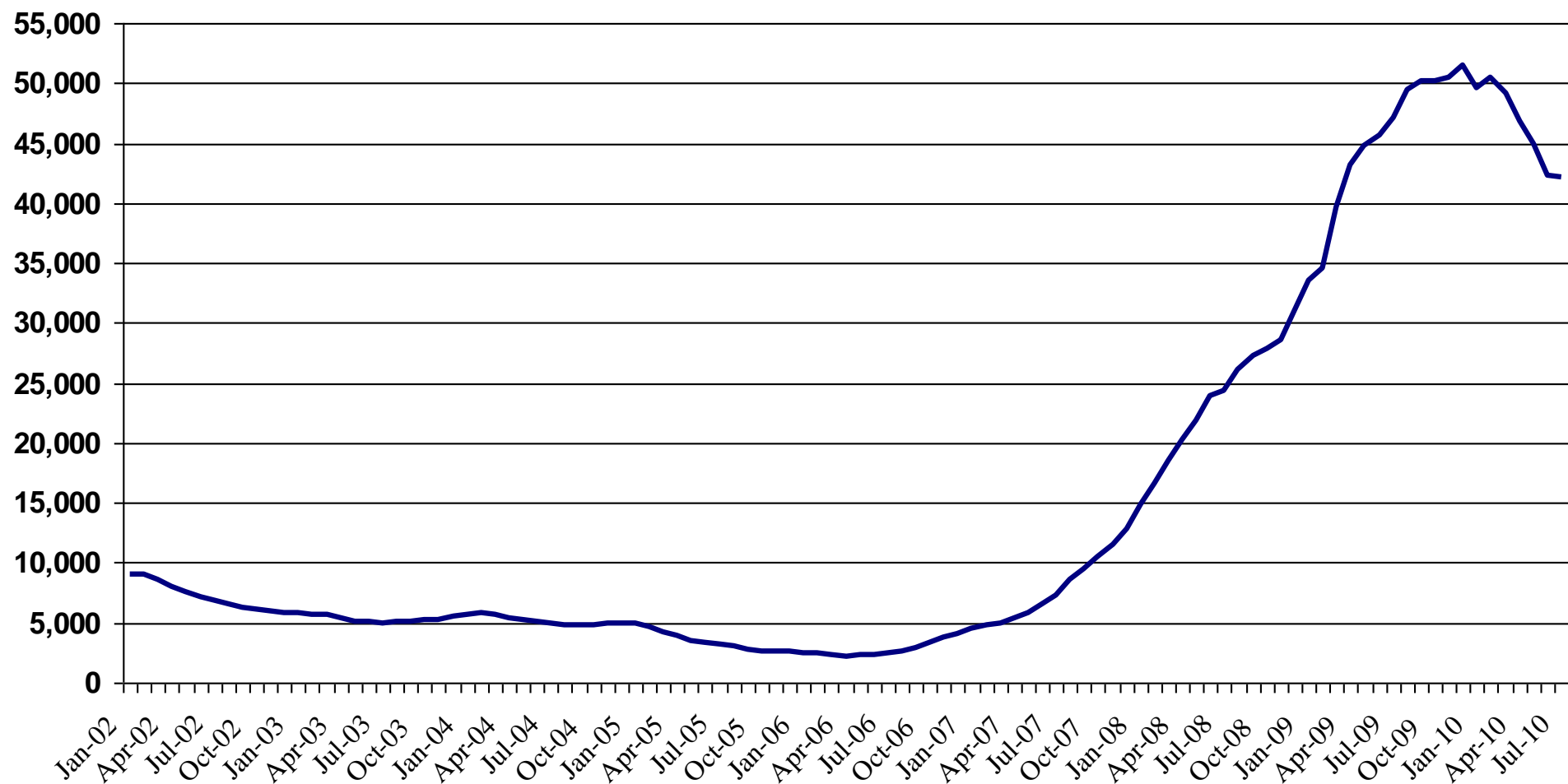


**Bad
economies
cause
foreclosures.**



Properties in the Foreclosure Process Maricopa County 2002 – 2010

Source: The Information Market



Greater Phoenix Employment **Losses**

Over last 12 months: **(4,900)**
Over last 24 months: **(167,000)**





How Investors Impact the Market:

Investors temporarily create demand.

How many of those homes will come back on the market?

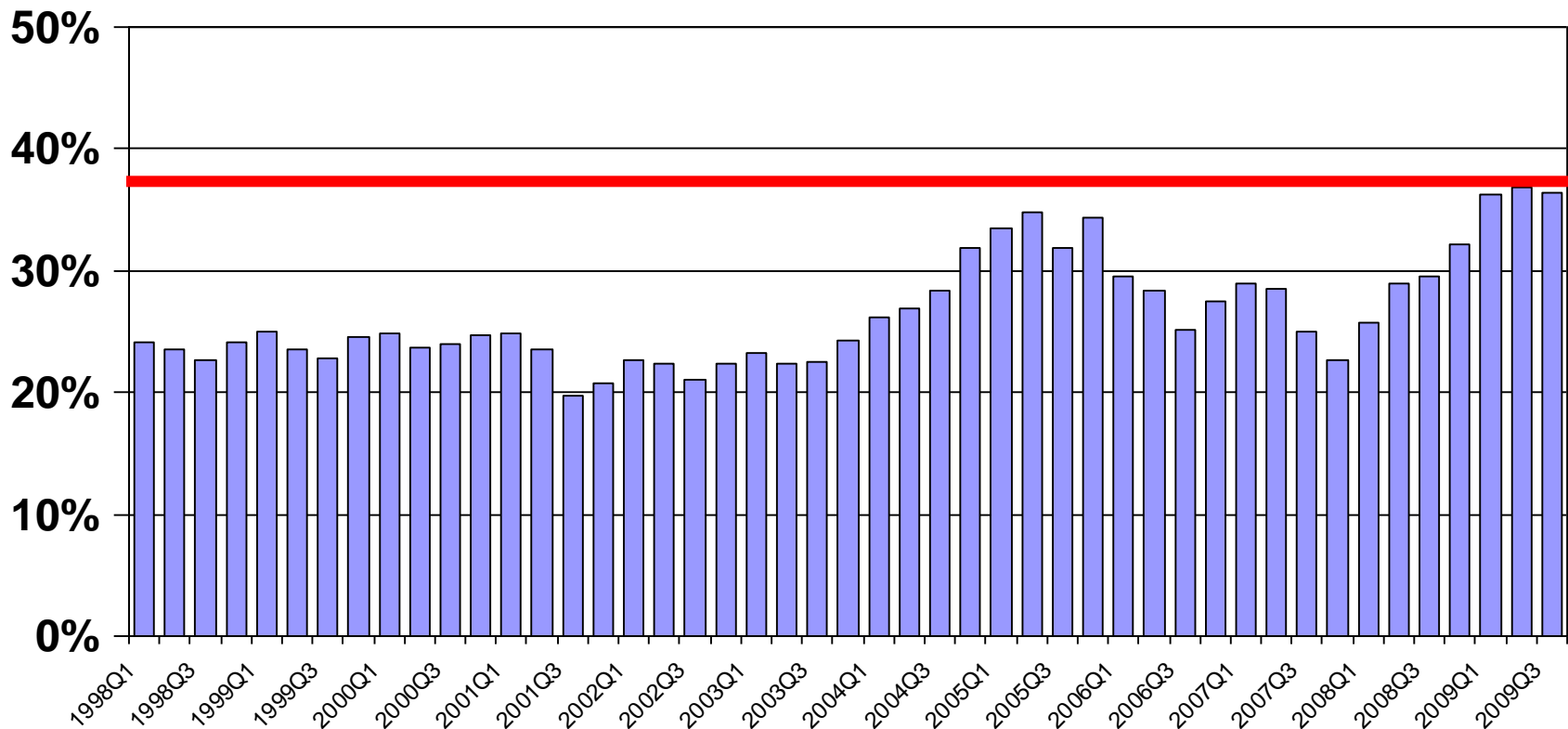


Investors: Nearly 40% Market?

Percent of Non-Owner Occupied Sales of Total Sales

Maricopa County

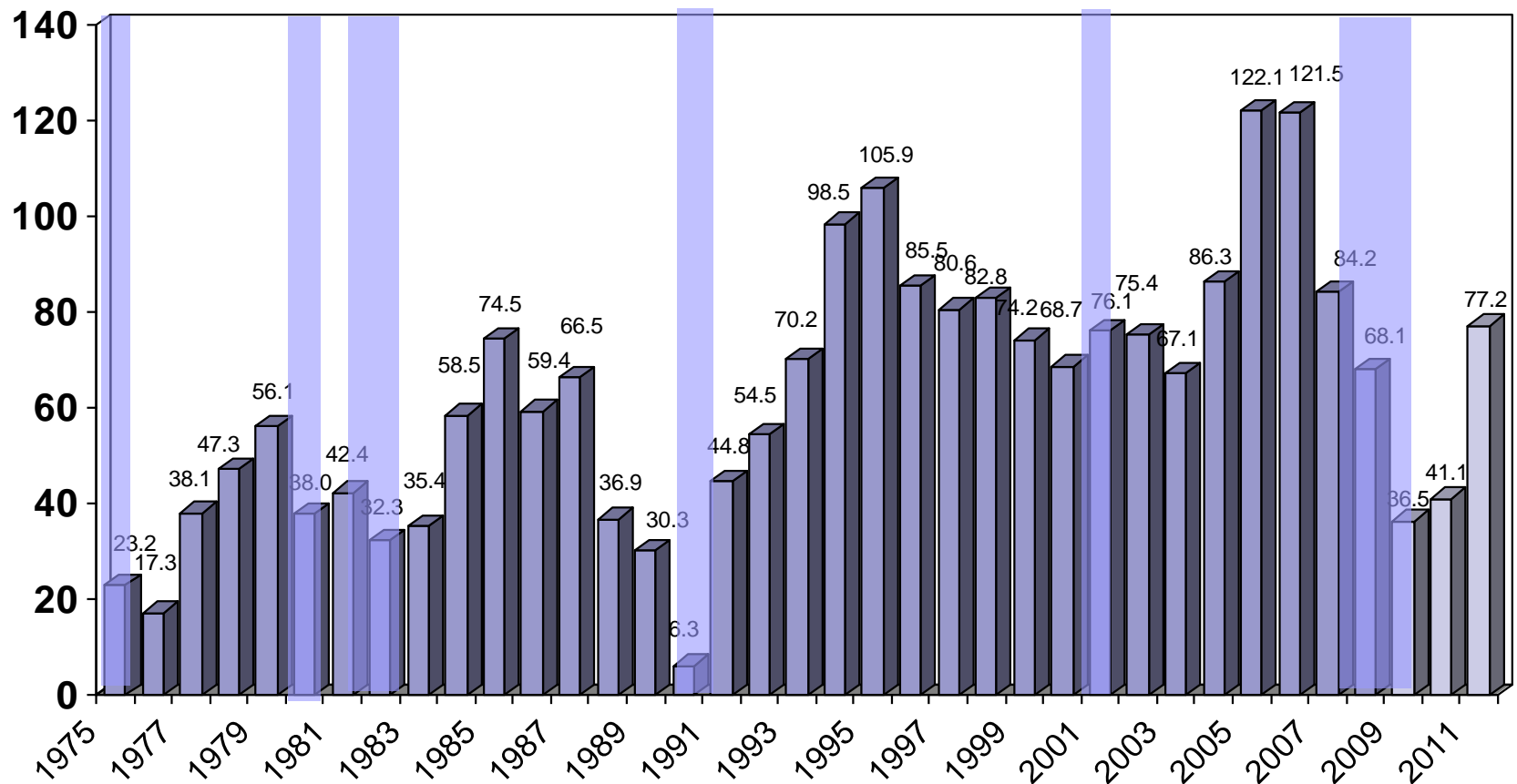
Source: DataQuick



Greater Phoenix Net Migration 1975–2011

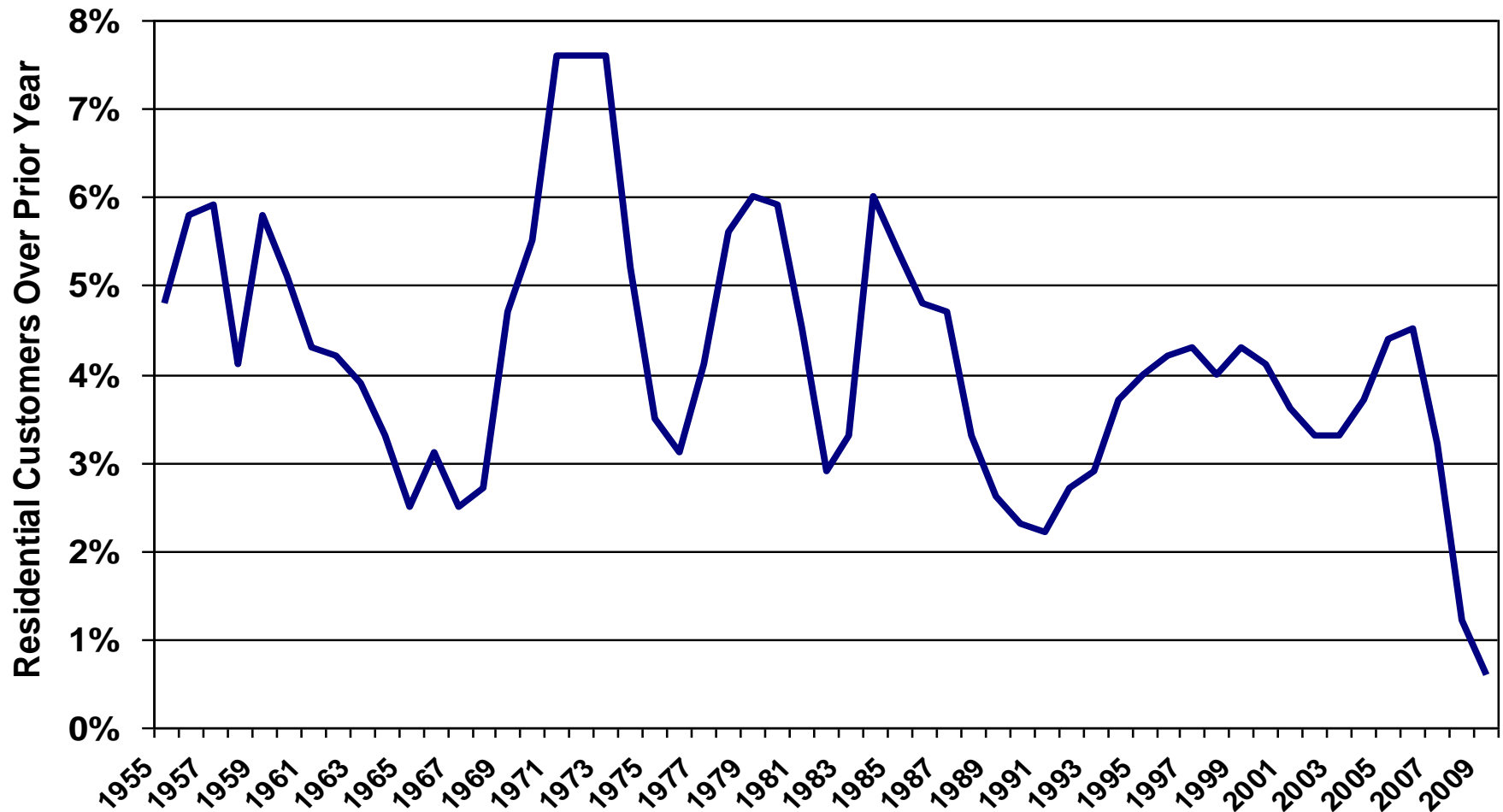
Source: University of Arizona

Recession Periods



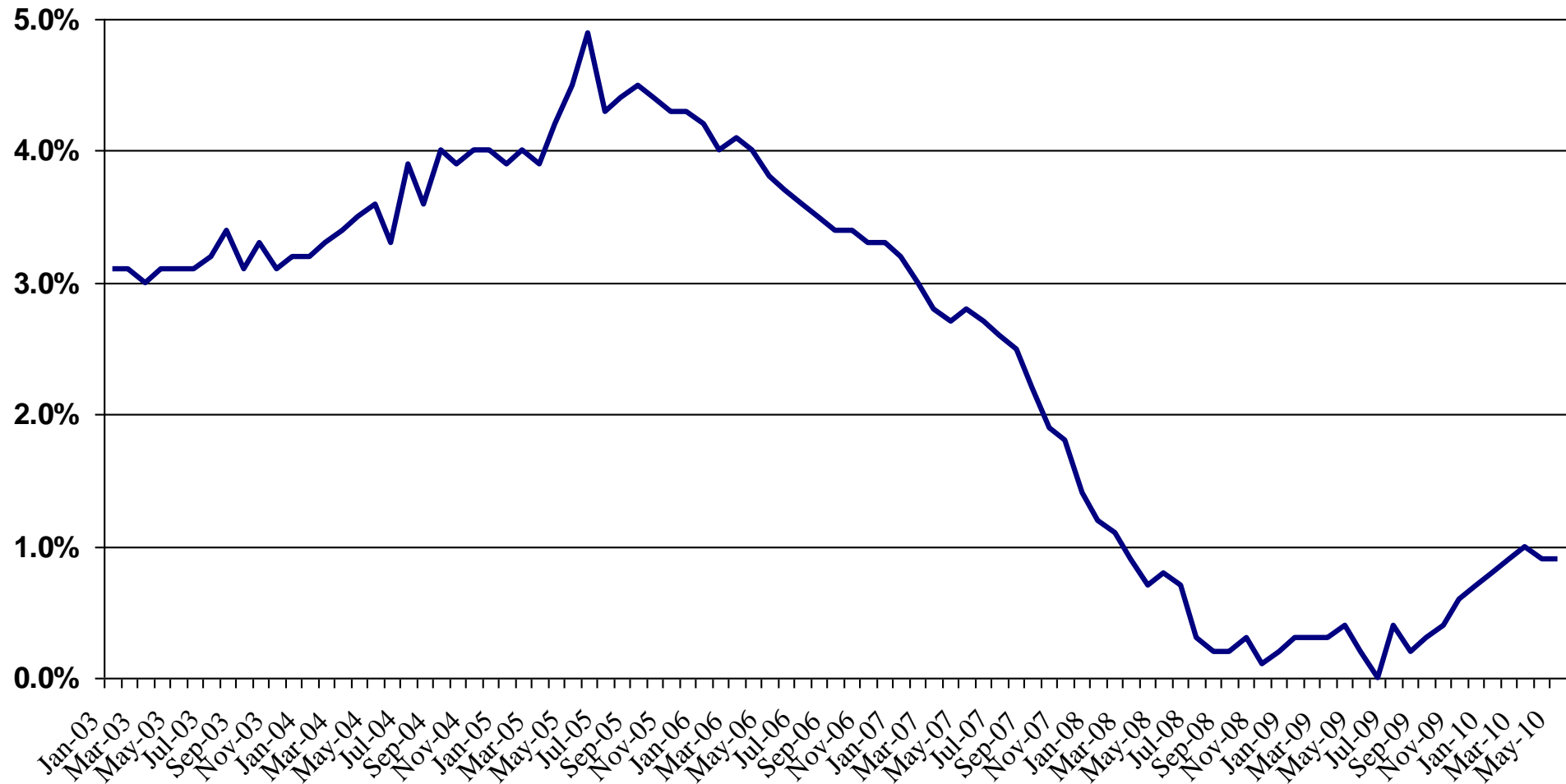
APS: Slowest Growth in over 50 years

1955 – 2009*



SRP Residential Utility Hookup Growth Greater Phoenix 2003 – 2010

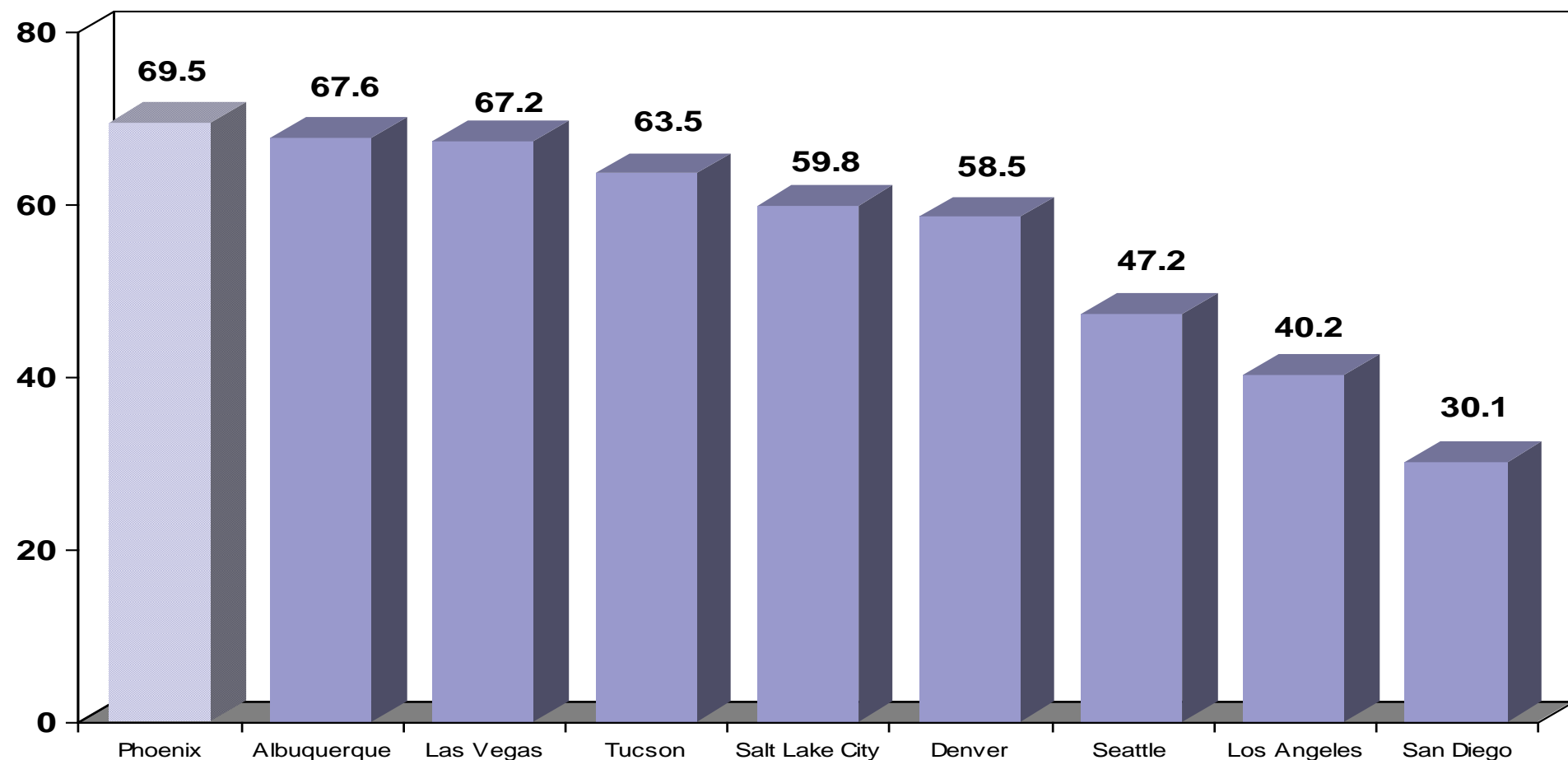
Source: SRP



Housing Affordability Index

2000 q1

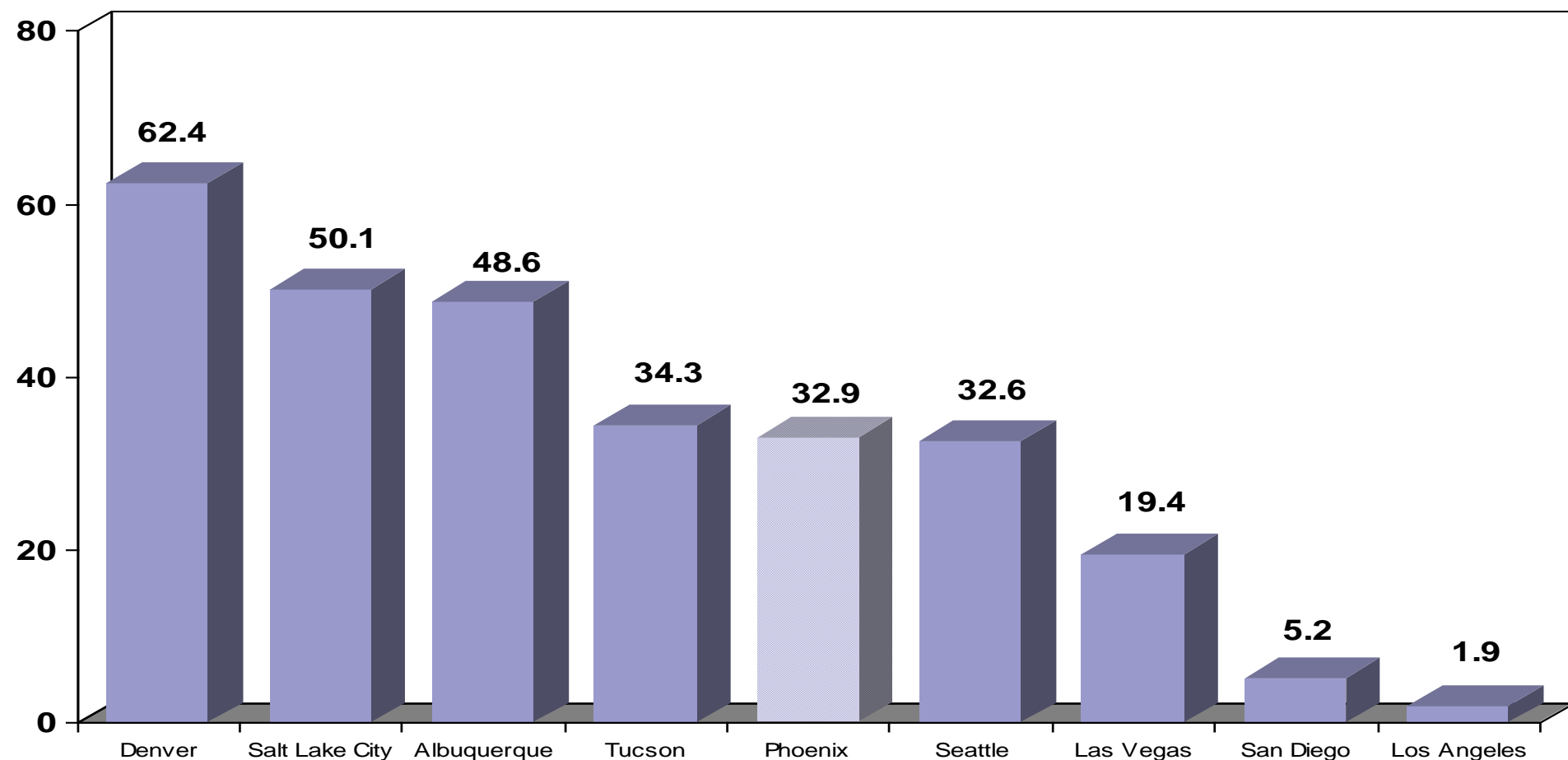
Source: NAHB



Housing Affordability Index

2006 q1

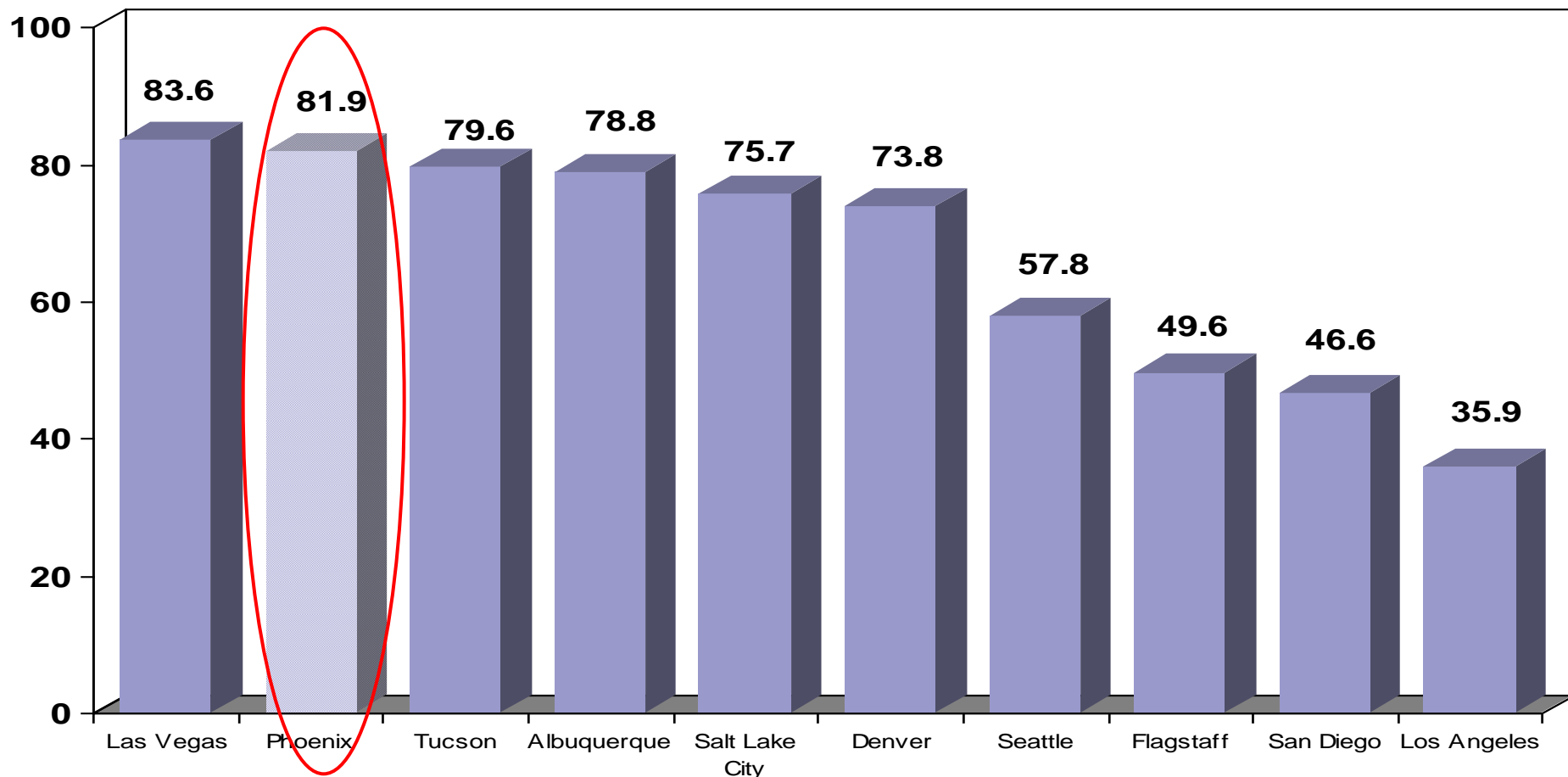
Source: NAHB



Housing Affordability Index

2010 q1

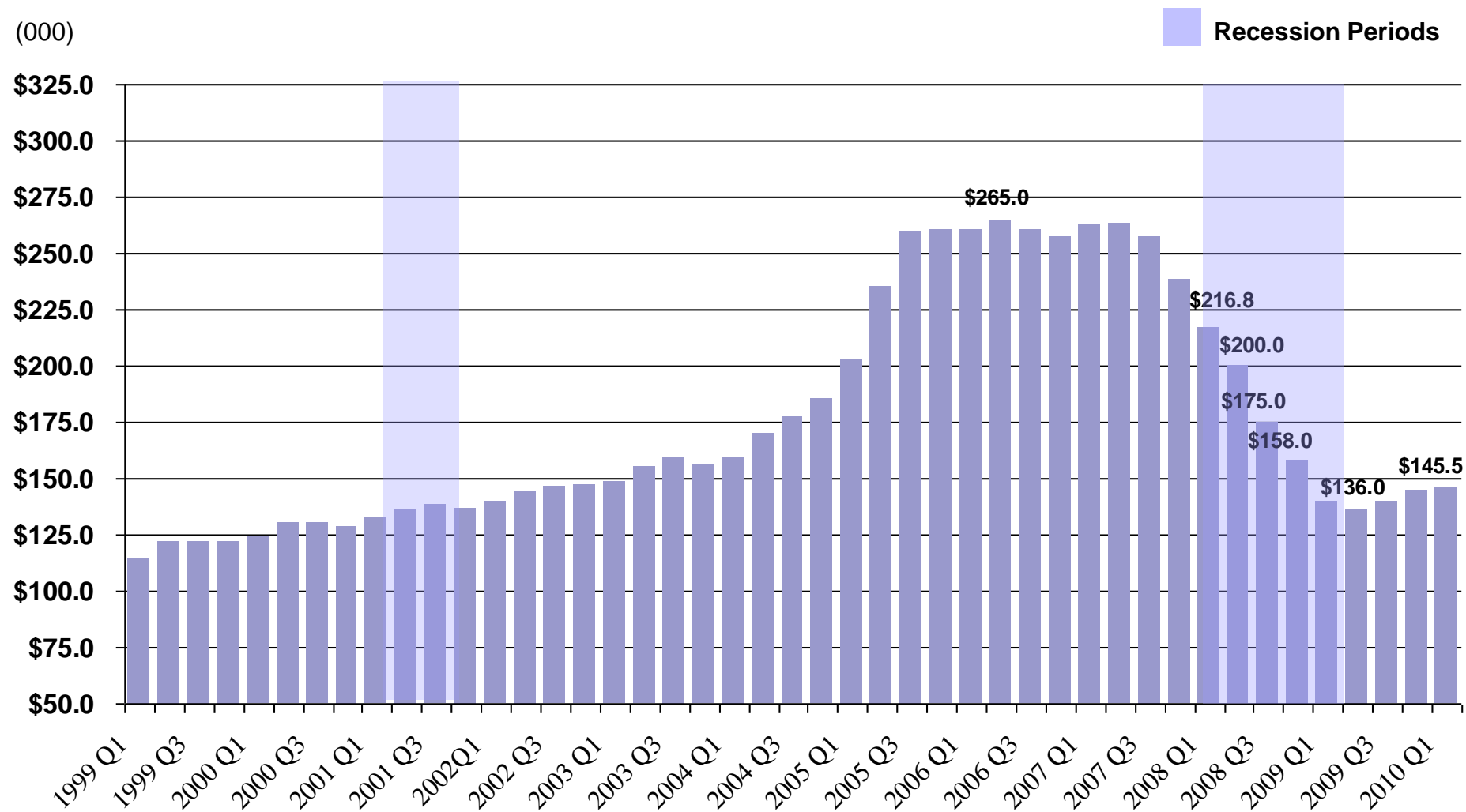
Source: NAHB



Greater Phoenix Median Price of Single Family Homes - Resale

1982 – 2010*

Source: Realty Studies

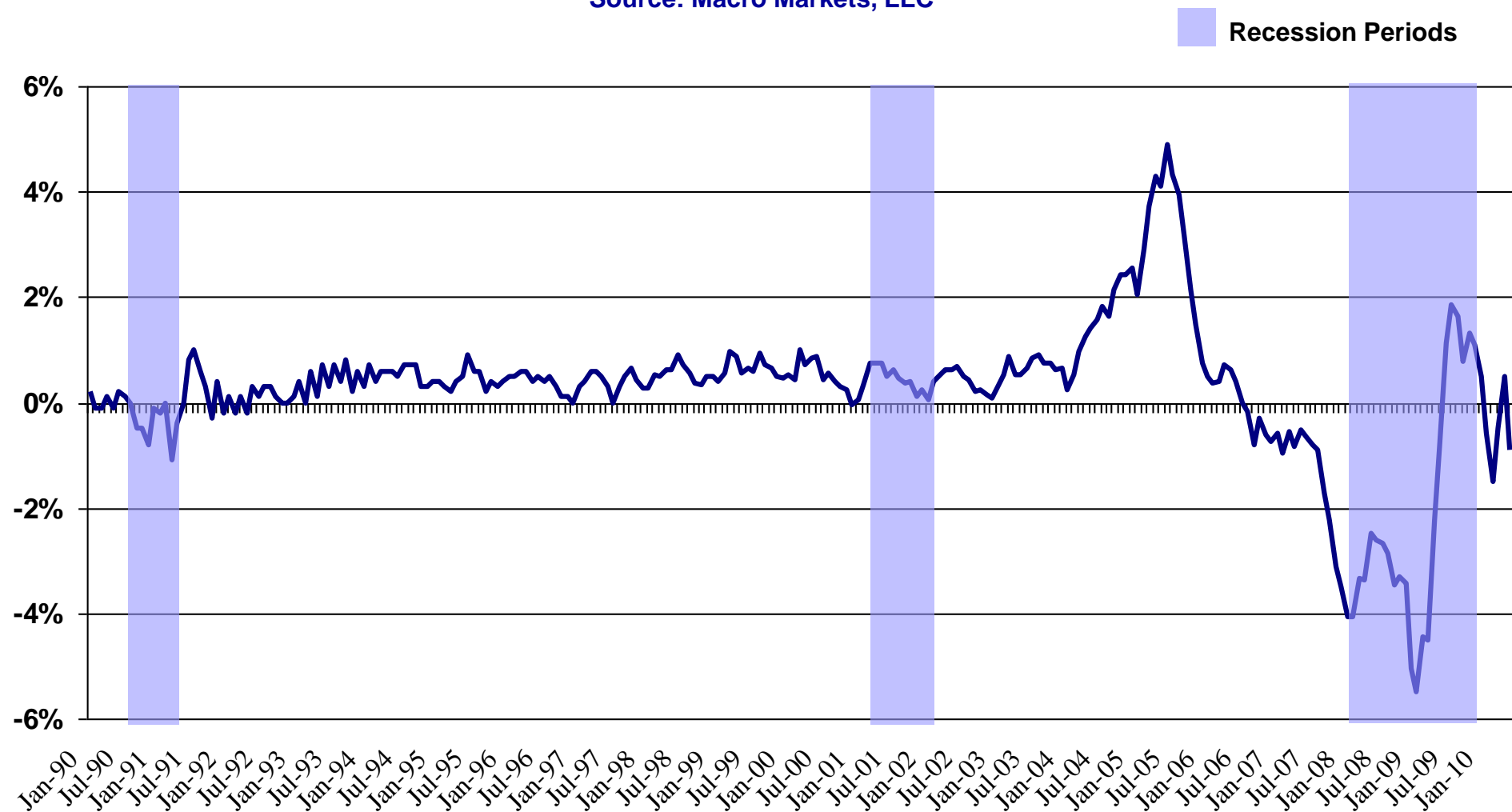


Greater Phoenix S&P/Case-Schiller Home Price Index**

Percent Change Month Ago

1990 – 2010*

Source: Macro Markets, LLC



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*Data through May 2010

**Measures changes in existing single family home prices given a constant level of quality.



**Balance between supply and demand
will not be fully achieved until about
2014.**

**But building will get
progressively better
between now and then.**

Balance = when you have to build for net in-migration

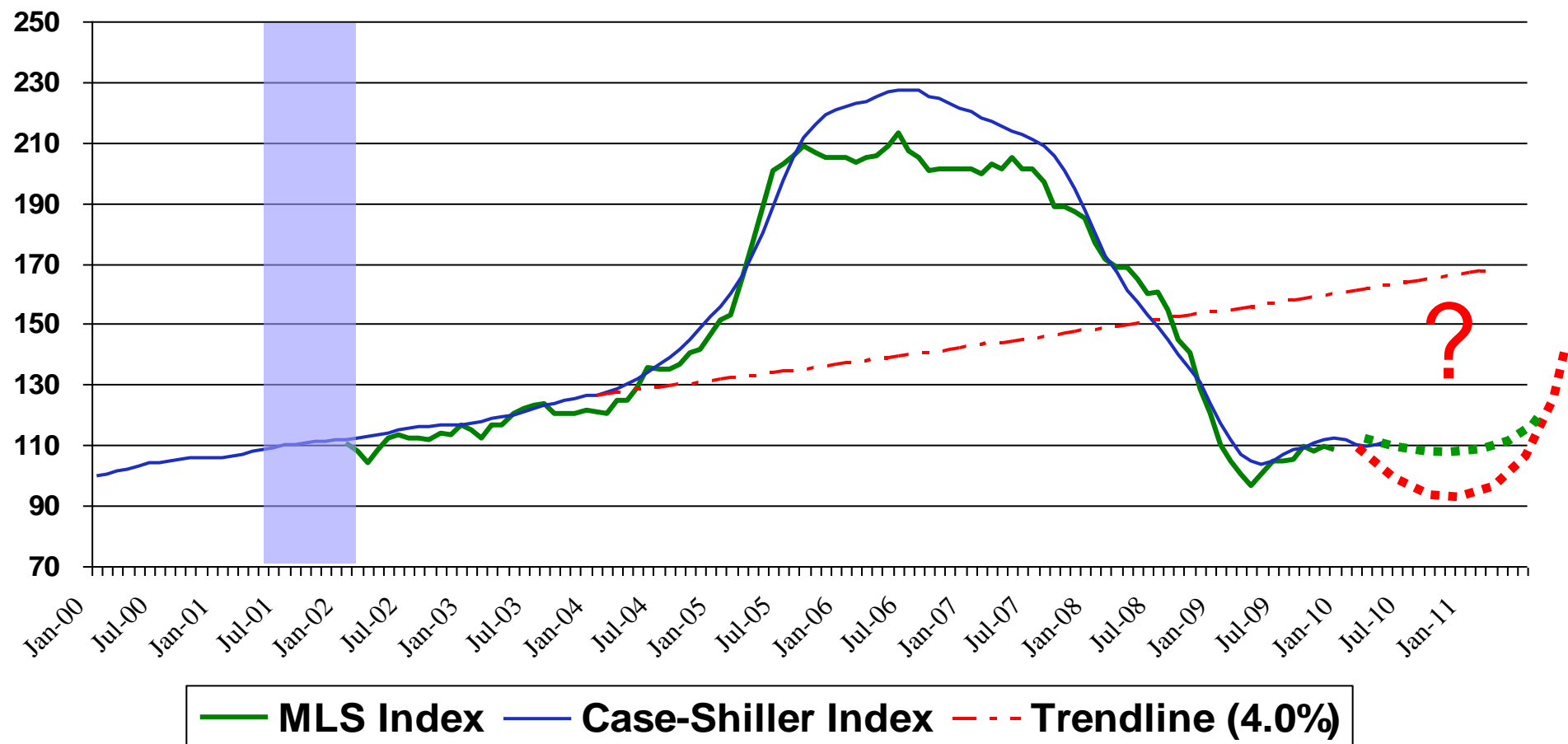


Home Prices Indices

2000 – 2011

Source: Macro Markets, LLC; AMLS

Recession Periods





**What
about
the
future
?**

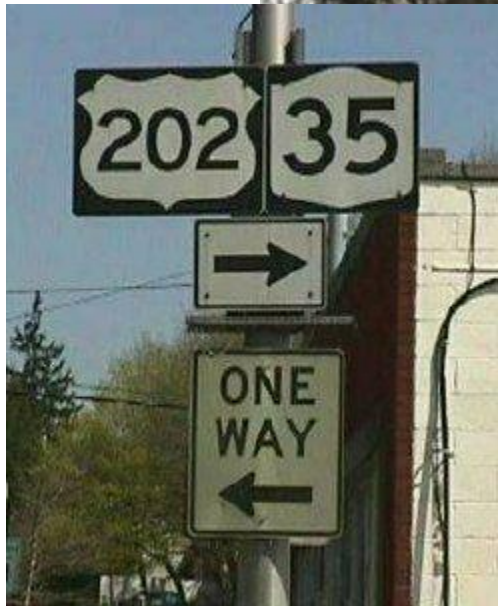


Greater Phoenix Long Term Population Forecasts

	2010	2020	2030
ADOC	4,582,014	5,885,794	7,060,443
Annual % growth	3.5%	2.5%	1.8%
U of A	4,388,536	5,766,480	7,453,910
Annual % growth	3.0%	2.8%	2.6%
Census	4,306,600	5,579,947	7,159,112
Annual % growth	2.8%	2.6%	2.5%



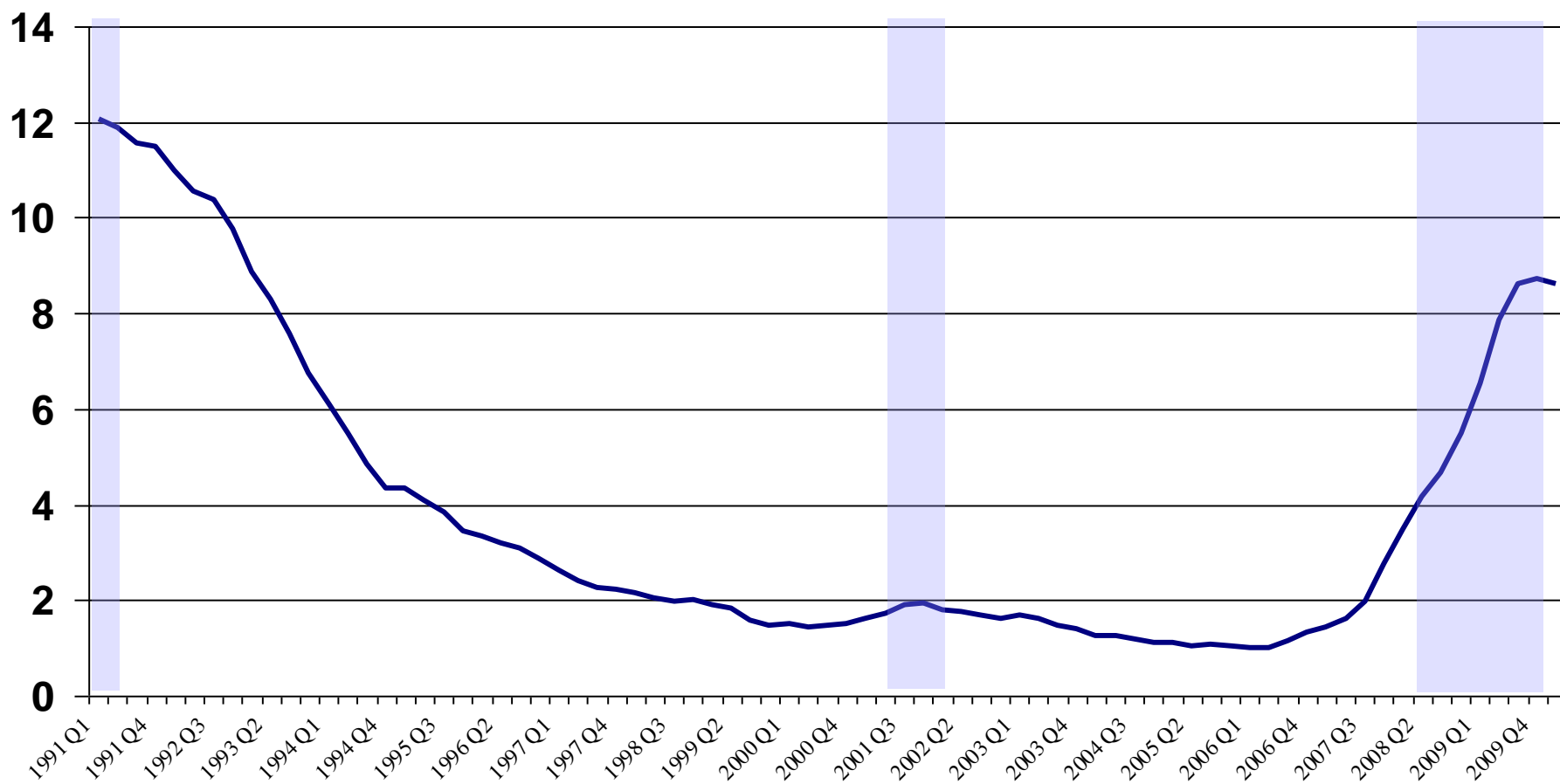
Commercial Markets...



Problem Commercial Real Estate Loans Rise Delinquency Rates at Commercial Banks 1991 – 2010*

Source: Federal Reserve

Recession Periods

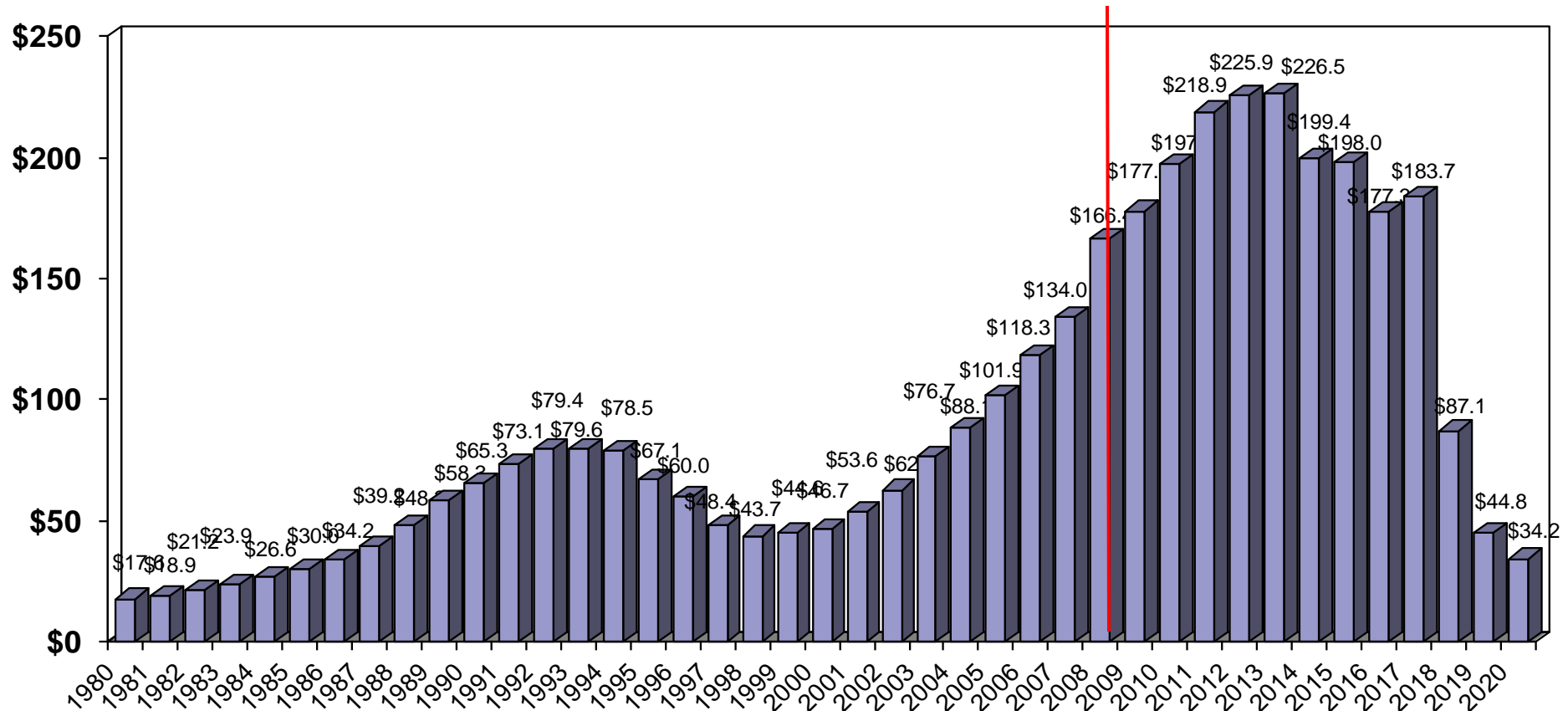


* Data through first quarter 2010



Commercial¹ Mortgage Maturities 1980–2020*

Source: Foresight Analytics



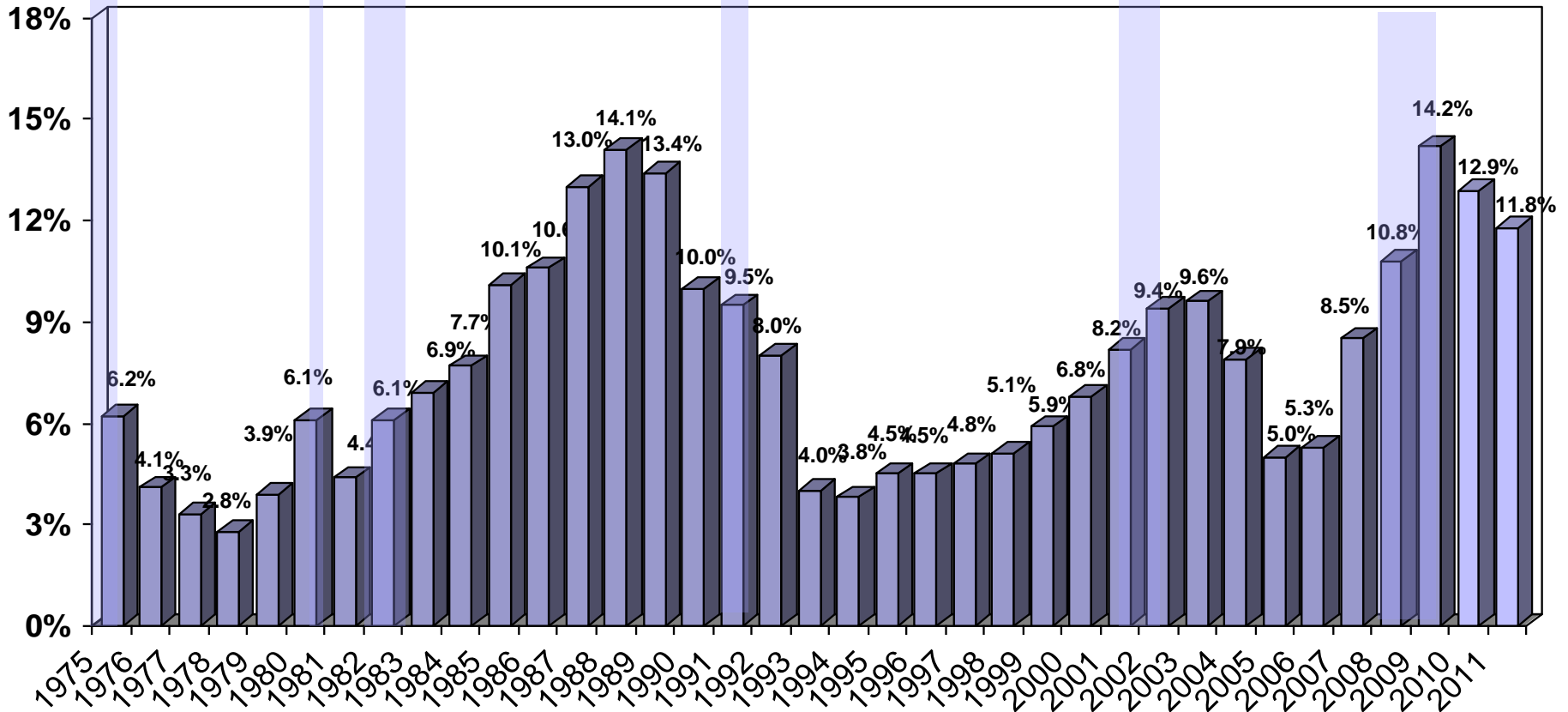
APARTMENTS



Multi-Family Year-End Vacancy Rates Maricopa County 1986–2011*

Source: ASU Realty Studies

Recession Periods



*2010 -2011 are forecasts from the Greater Phoenix Blue Chip



Multi-Family Construction Activity

Source: PMHS

	<u>Absorption</u>	<u>Chg in Inventory*</u>
2005	4,756	(5,169)
2006	(4,653)	(3,828)
2007	(5,846)	4,979
2008	(4,466)	3,234
2009	(5,319)	6,831
2010 q2 _{ytd}	10,221	3,171

*There were 19,949 condo conversion in the Greater Phoenix area from q1 2005 through q4 2009.

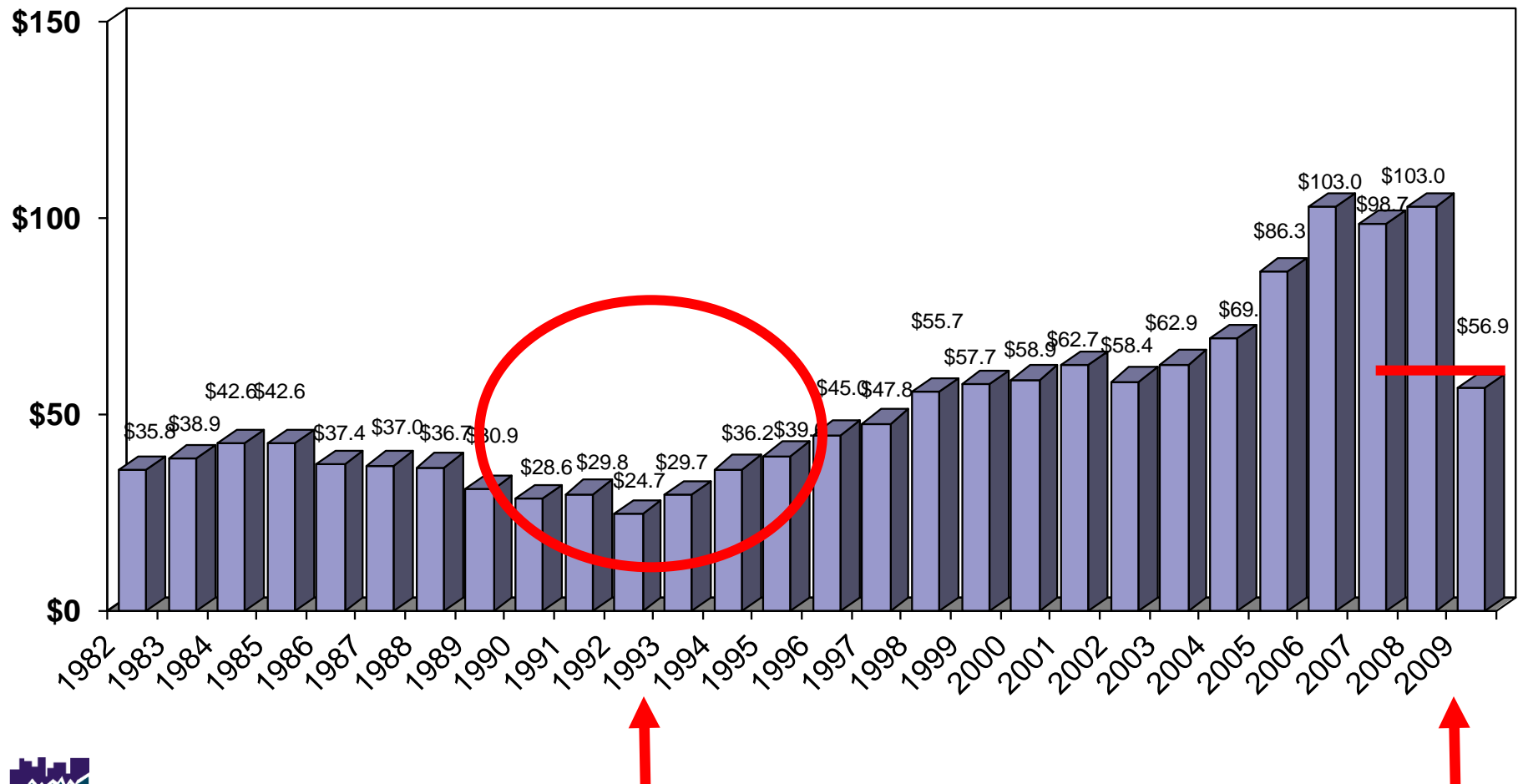


**There are currently
293 multi-family units under
construction (q2 10).**



Apartment Sales: Price per Square Foot Maricopa County 1982–2009

Source: Kammrath & Associates





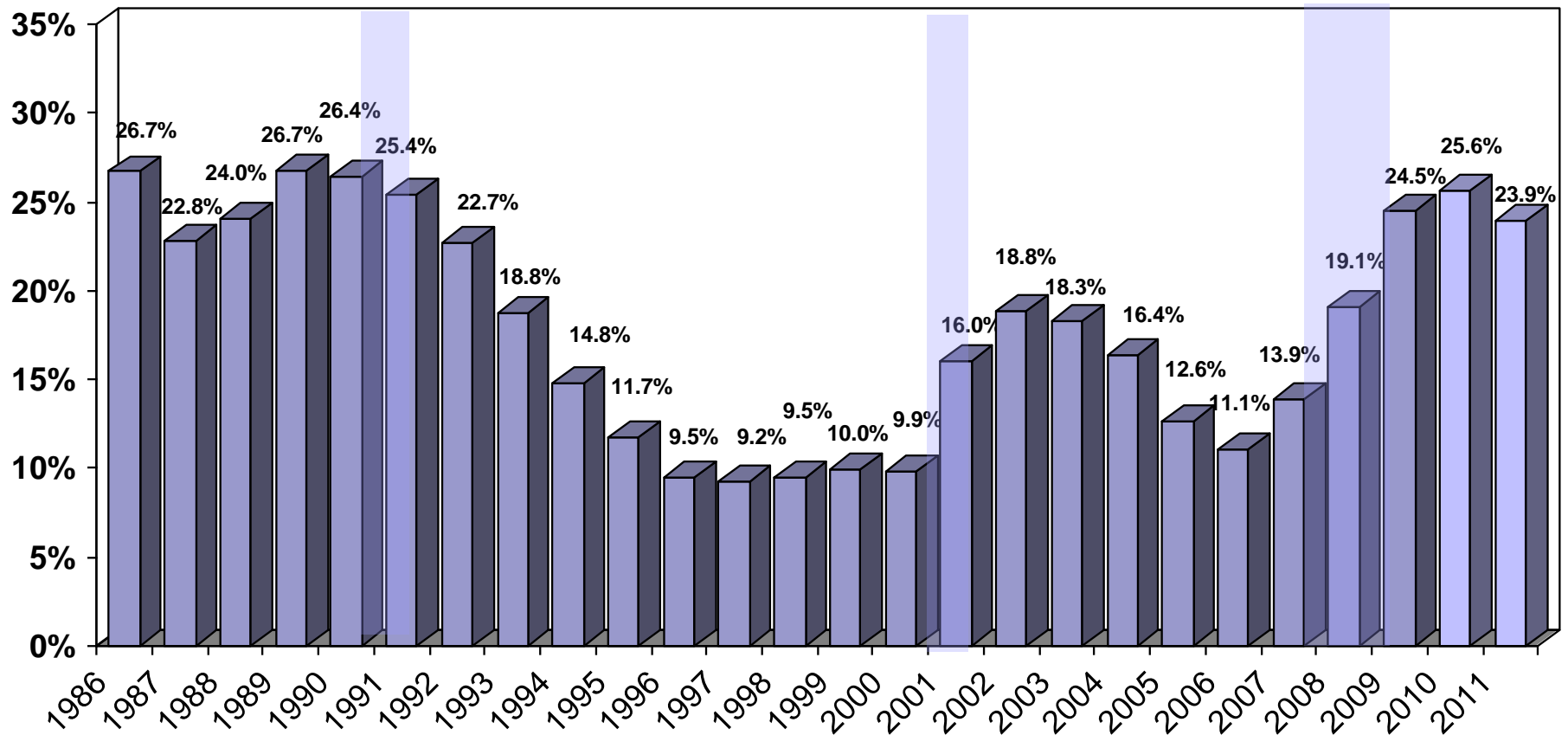
OFFICE



Office Space Year-End Vacancy Rates Maricopa County 1986–2011*

Source: CB Richard Ellis

Recession Periods



Greater Phoenix Office Market Construction Activity*

Source: CB Richard Ellis

	<u>Absorption</u>	<u>Chg in Inventory</u>
2004	2,222,880 sf	1,620,860 sf
2005	3,119,293 sf	7,987 sf
2006	3,245,888 sf	2,320,302 sf**
2007	1,500,704 sf	4,905,374 sf
2008	(603,112) sf	3,402,646 sf
2009	(2,407,706) sf	1,798,415 sf
2010 q2	468,675 sf	(275,000) sf

*Only includes multi-tenant space greater than 10,000 SF

** A number of buildings in downtown and mid-town are being converted to office condos.

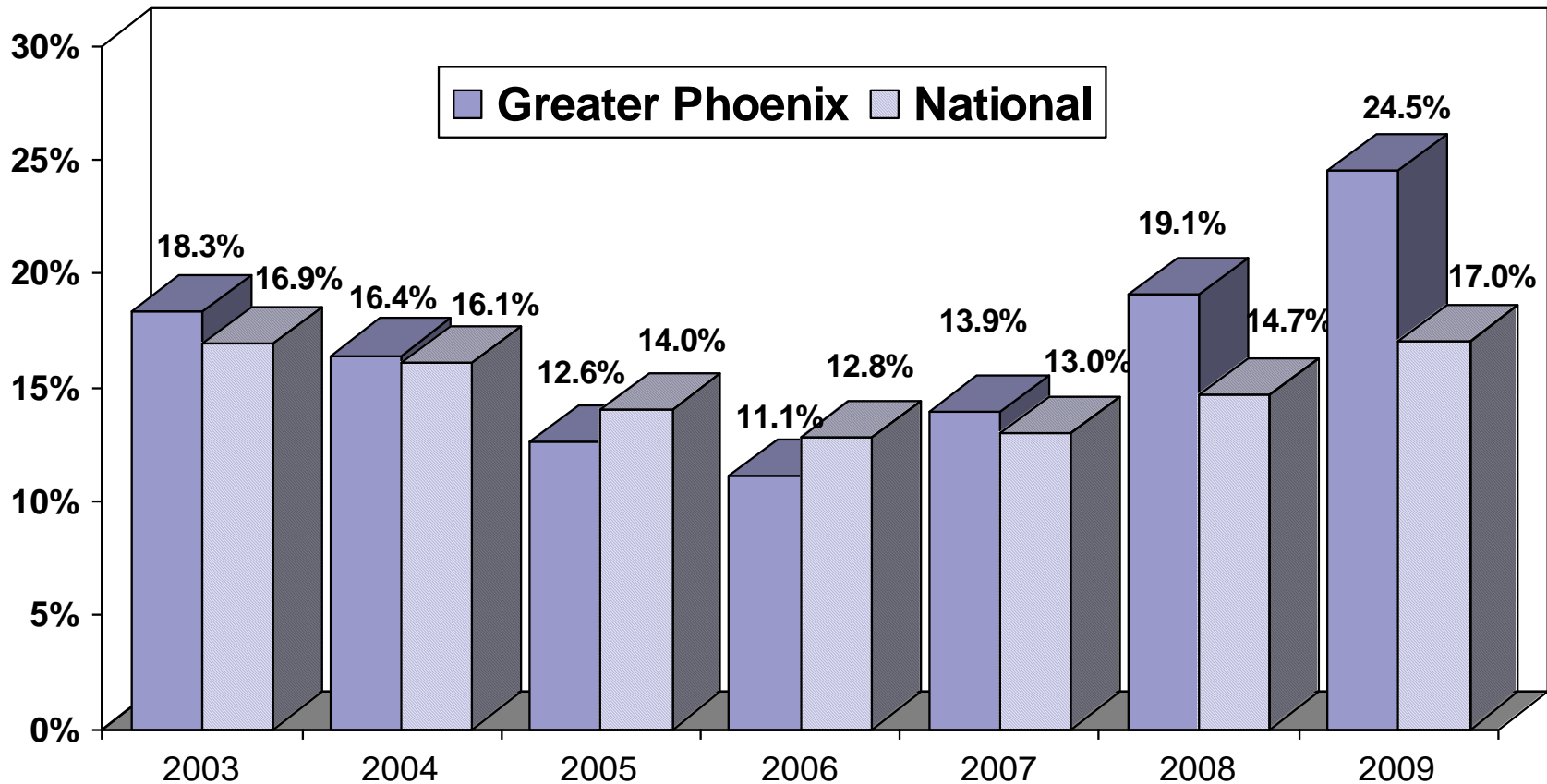


**There is currently
no multi-tenant office space under
construction (q2 10).**



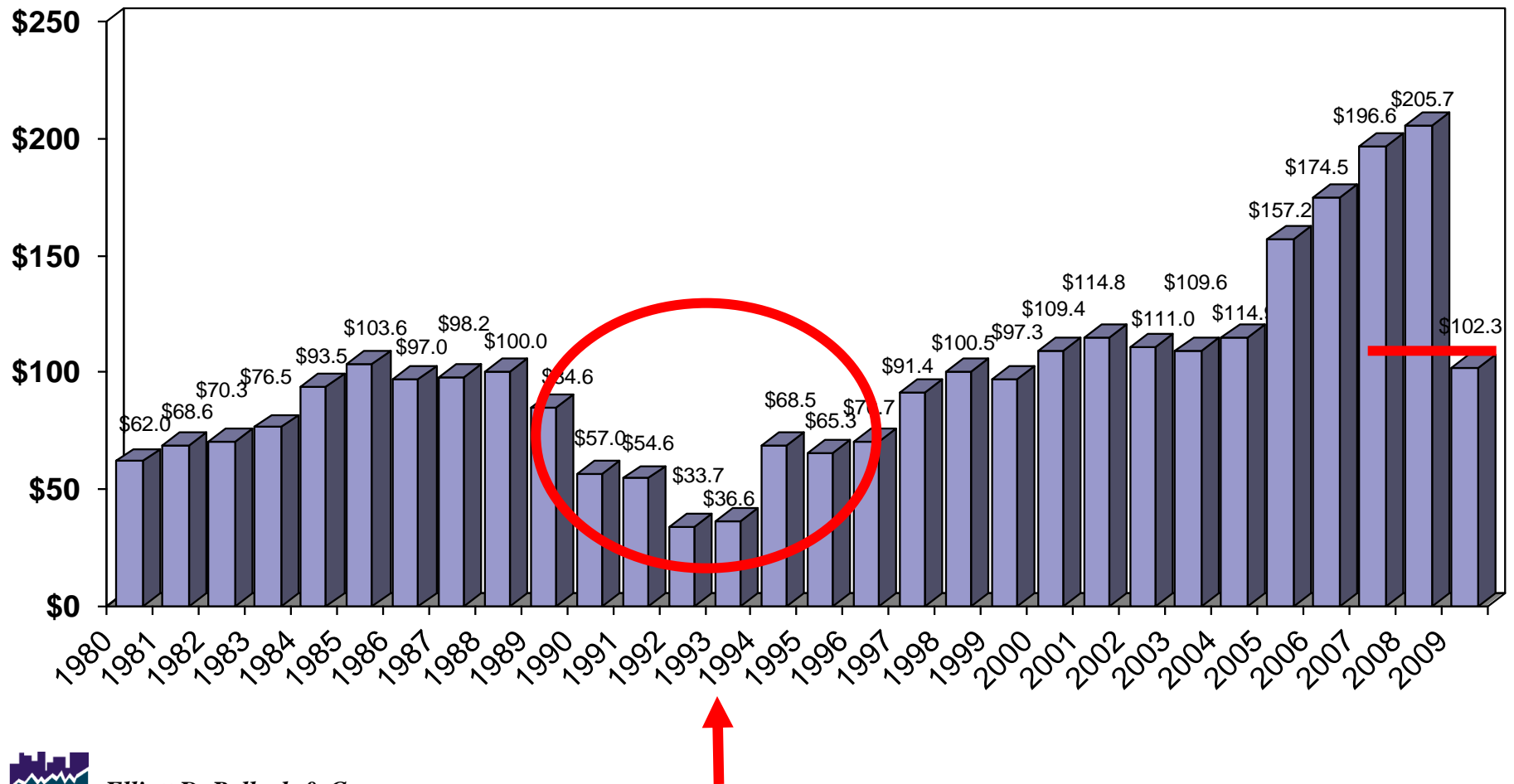
Office Space Vacancy Rates U.S. versus Greater Phoenix

Source: CB Richard Ellis and Marcus & Millichap



Office Sales: Price per Square Foot Maricopa County 1980–2009

Source: Kammrath & Associates





**No significant office
building in Greater
Phoenix for next 5 years.**

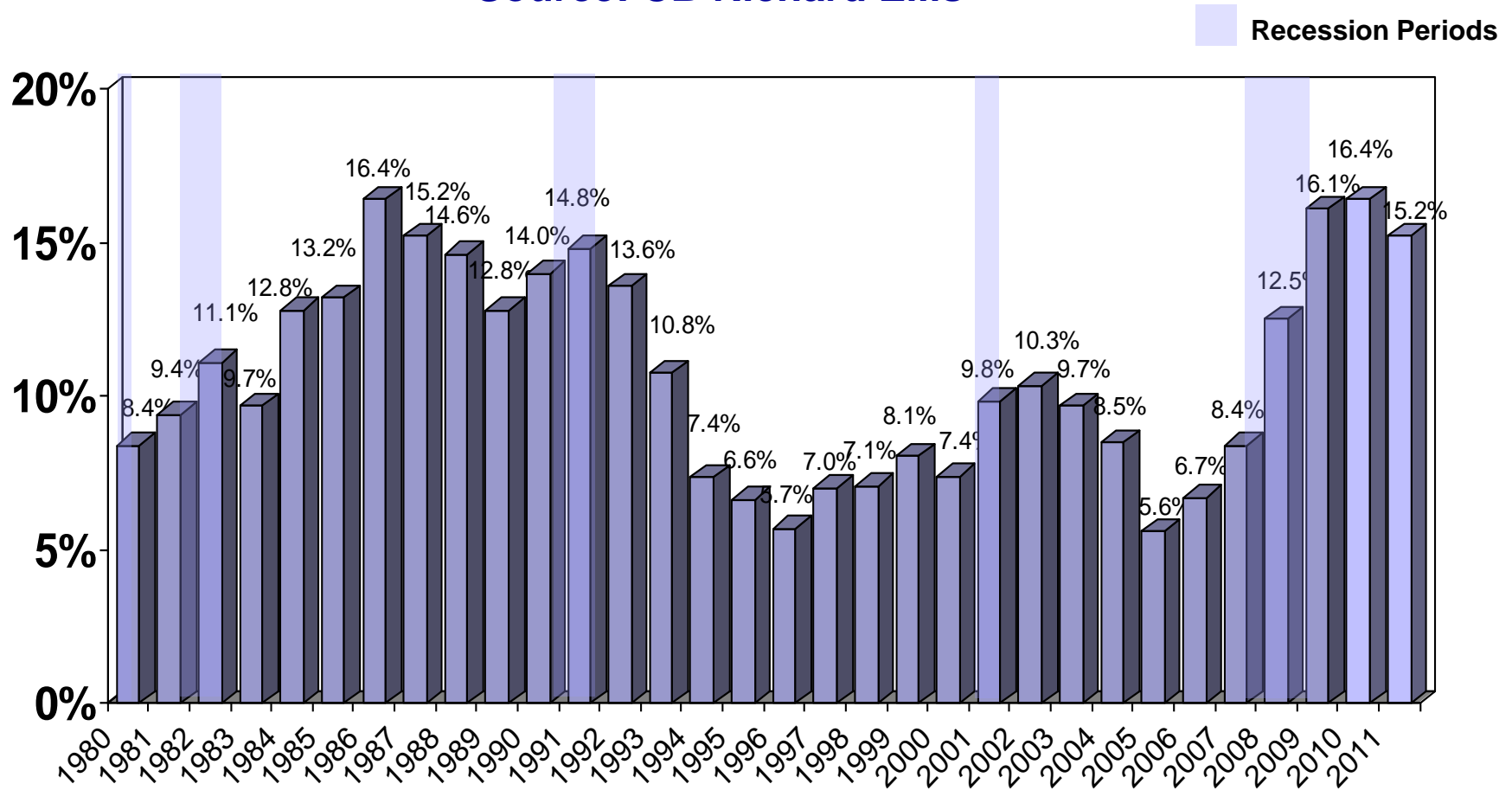


INDUSTRIAL



Industrial Space Vacancy Rates Maricopa County 1980 – 2011*

Source: CB Richard Ellis



* 2010 - 2011 are forecasts from CBRE



Greater Phoenix Industrial Market Construction Activity

Source: CB Richard Ellis

	<u>Absorption</u>	<u>Chg in Inventory</u>
2004	6,273,847 sf	7,402,396 sf
2005	12,339,591 sf	7,071,477 sf
2006	6,032,175 sf	7,829,959 sf
2007	8,359,835 sf	13,914,612 sf
2008	2,297,084 sf	13,467,215 sf
2009	(12,762,884) sf	4,753,218 sf
2010 q2	570,372 sf	547,707 sf

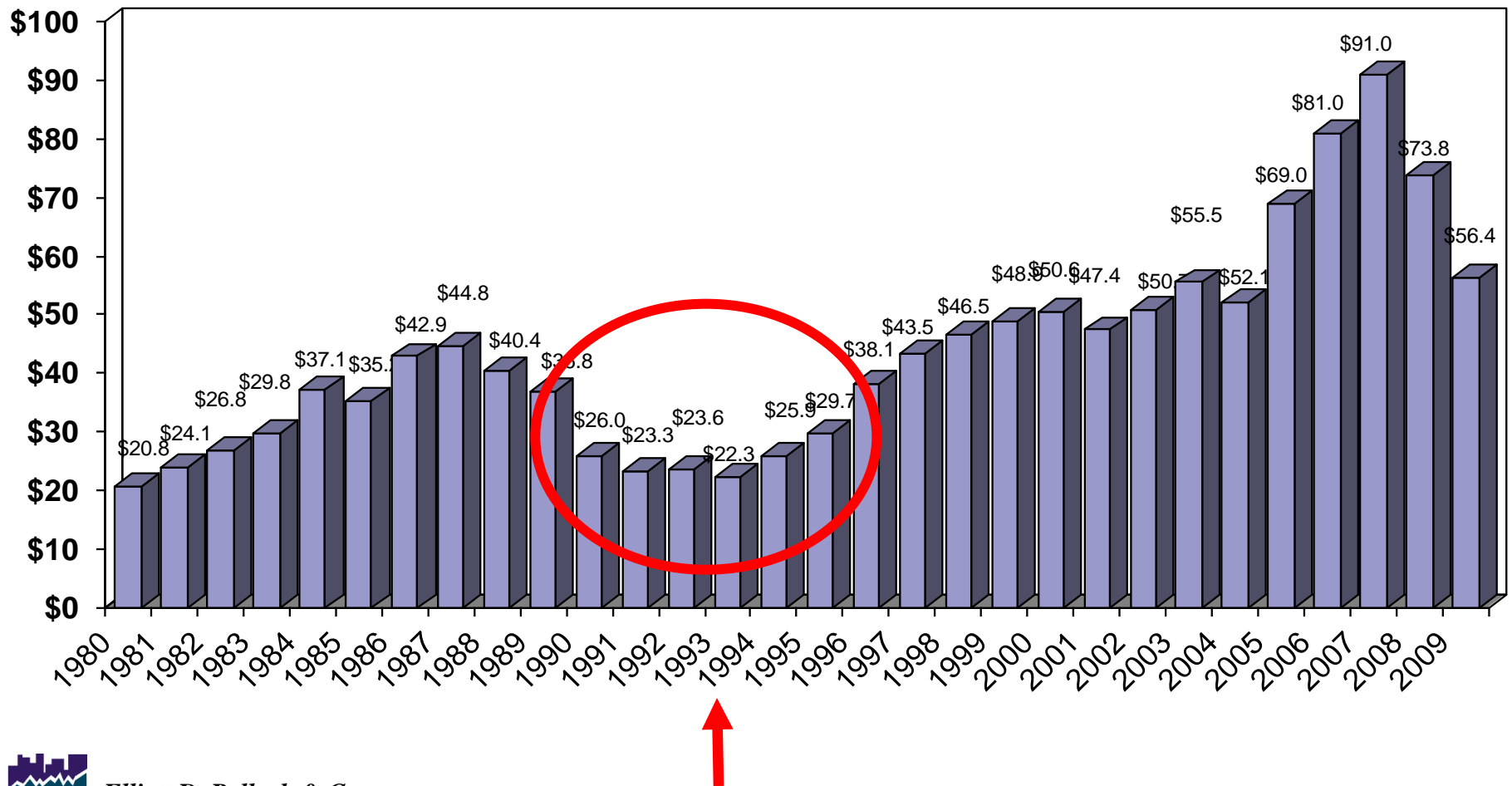


**There are currently
0.8 million square feet of
industrial space
under construction (q2 10).**



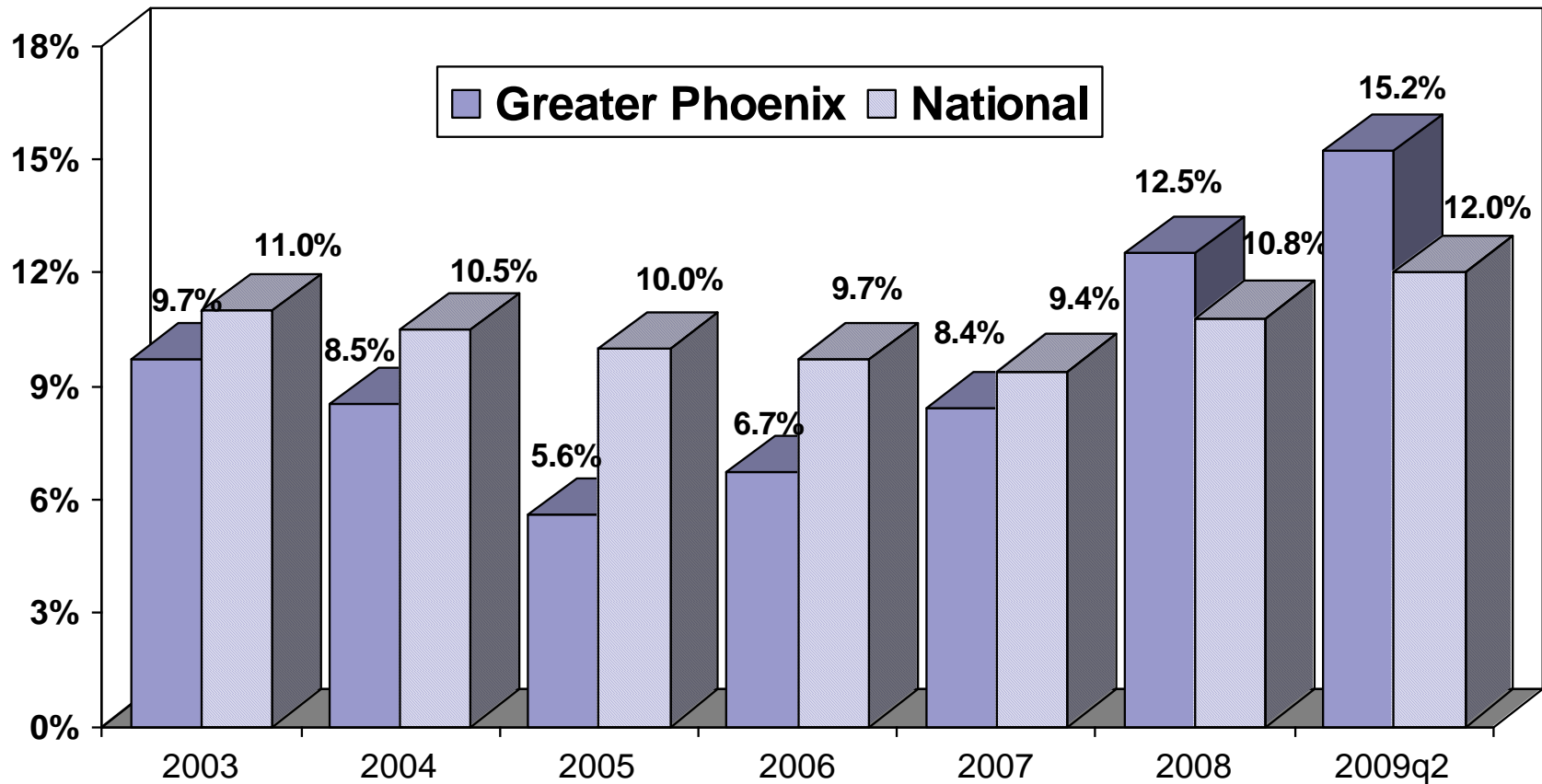
Industrial Sales: Price per Square Foot Maricopa County 1980–2009

Source: Kammrath & Associates



Industrial Space Vacancy Rates U.S. versus Greater Phoenix

Source: CB Richard Ellis and Marcus & Millichap



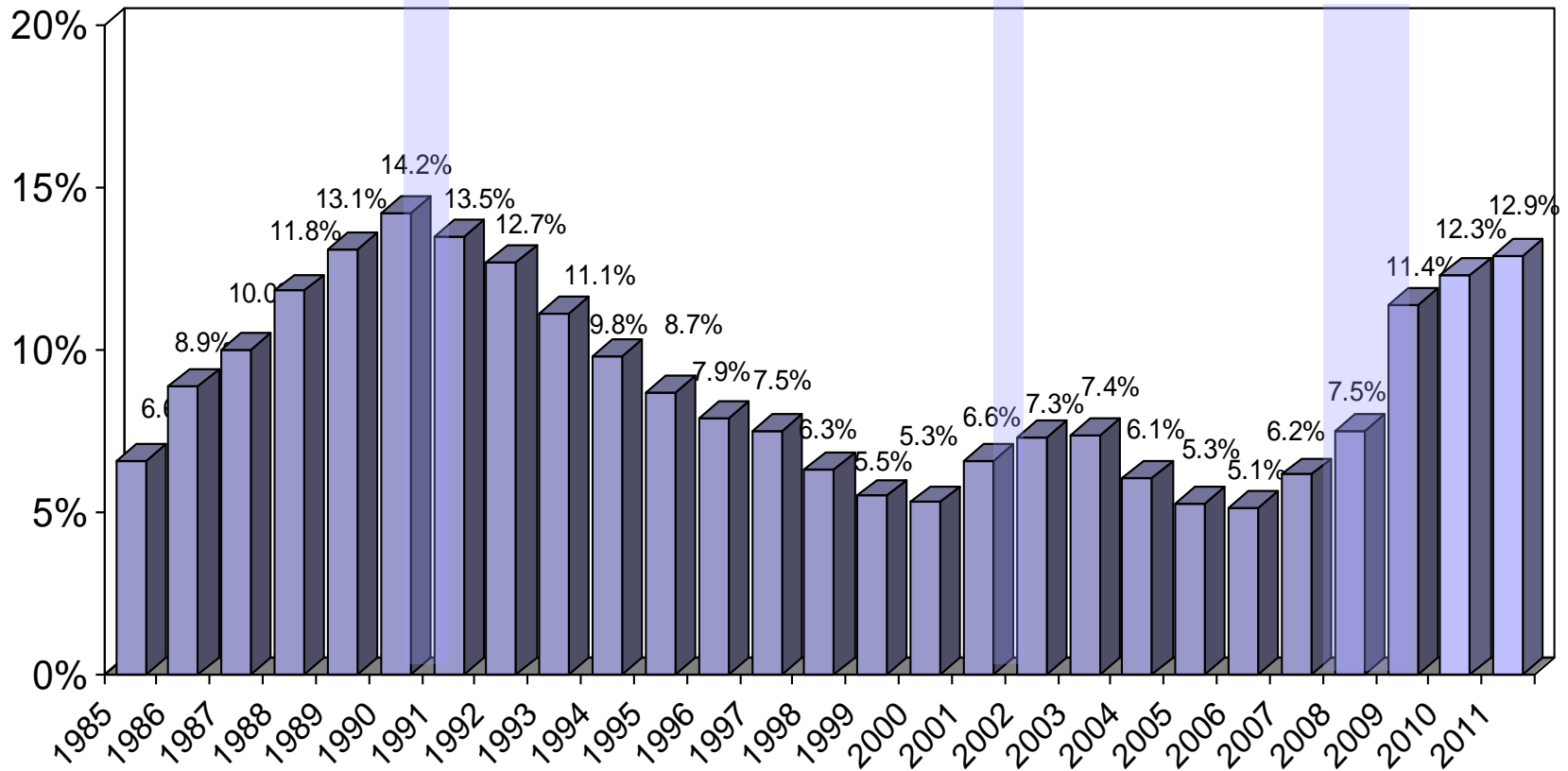
RETAIL



Retail Space Vacancy Rates Maricopa County 1985–2011*

Source: CB Richard Ellis**

Recession Periods



* 2010 -2011 are forecasts from CB Richard Ellis

** Data prior to 1992 is from Grubb & Ellis



**No new commercial
construction is needed
for years.**



Back to Normal Vacancy?

- **Office = 2014 – 2015**
- **Industrial = 2014 – 2015**
- **Retail = 2014 - 2015**



Summary

- Employment should be picking up by middle of 2010.
- Retail sales could have significant rebound because down so far .
- Population will lag growth in employment.



Maricopa County Forecast FY 2010 – FY 2011

<u>Indicator</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Population	1.5%	0.4%	1.0%
Employment	-6.2%	-5.7%	1.5%
Retail Sales	-12.5%	-6.0%	3.0%
Building Permits	-56.4%	-27.8%	40.0%

Source: Elliott D. Pollack & Company, Pessimistic Scenario



Revenue Outlook Remains Weak

- ❑ Retail sales are still weak, but improving
- ❑ Car sales improving, but only slightly
- ❑ Construction in the residential market might pick up, but it is still only a fraction from the peak.
- ❑ Commercial construction will remain weak this year and next.
- ❑ Commercial property values are down.
- ❑ State shared revenues will remain down (due to both weak sales and budget crisis).





**How
will it all
turn out?**



**The light at
the end of the
tunnel is
distant...**

**...we are
getting there,
but slowly!**





Greater Phoenix economic fundamentals have not really changed (even with SB1070).

The long term economic outlook remains favorable.



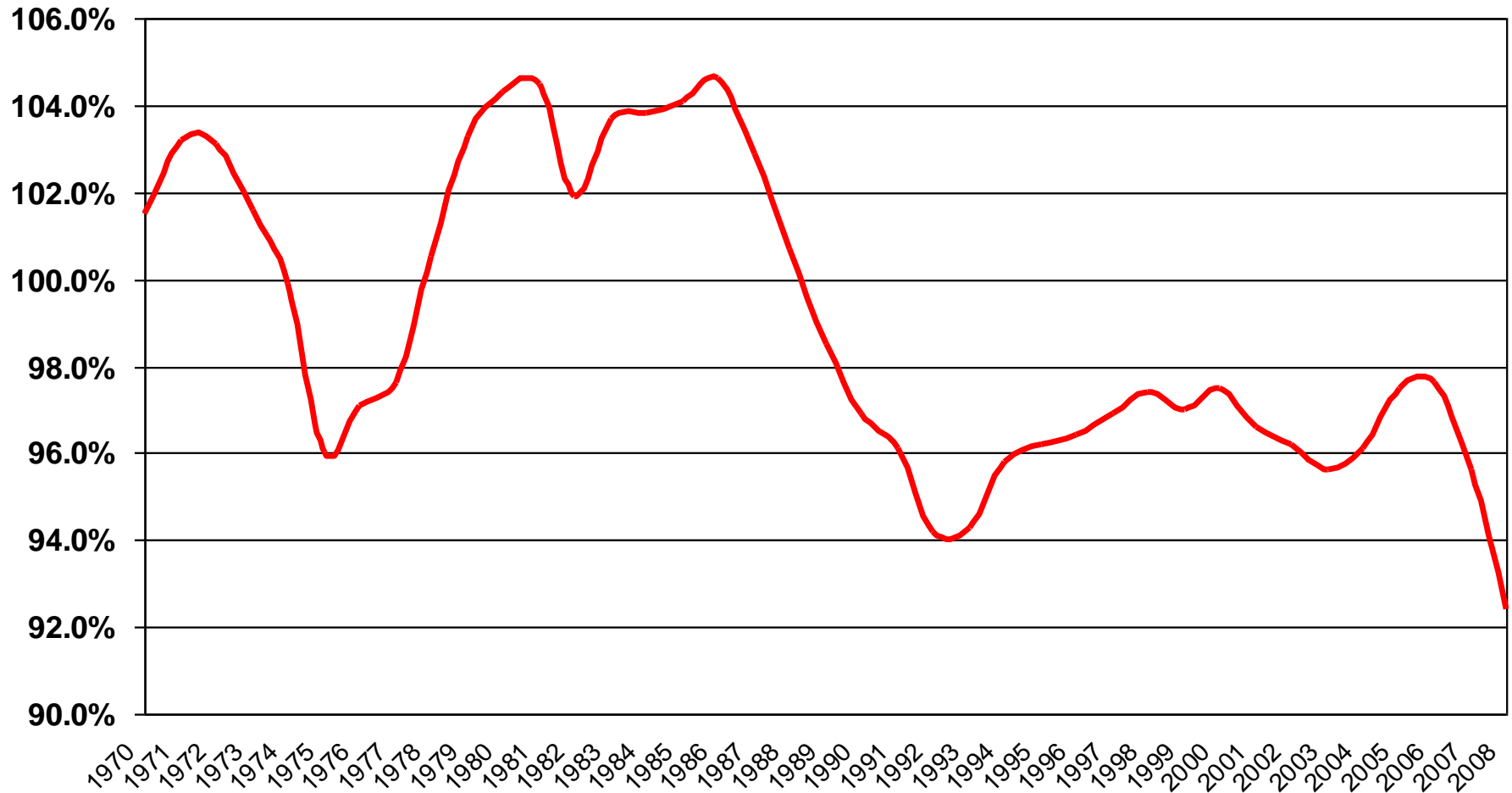
Shorter Term Positives:

- We will benefit from the U.S. recovery;
- Housing is very affordable again;
- Single family permitting has probably bottomed;
- So has employment;
- So has population;
- Consumer spending will be up a little;
- California is still a complete disaster;



Per Capita Personal Income as a Percent of U.S. Maricopa County 1970 - 2008



Source: Bureau of Labor Statistics



Longer Term Considerations:

- People will start moving here again;
- We will again create jobs at a rapid pace as the local recovery takes hold;
- ***But, these will be lower quality jobs;***
- ***We anticipate base industries will not grow as strongly;***
- ***Thus, PCPI will continue its decline;***
- We do not yet have faith that state policymakers will help to turn this around.





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